1	BEFORE THE
2	ILLINOIS COMMERCE COMMISSION
3	
4	ILLINOIS-AMERICAN WATER COMPANY) DOCKET NO) 09-0319
5	Proposed general increase in water) and sewer rates.
6	(Tariffs filed May 29, 2009)
7	
8	Springfield, Illinois Wednesday, December 9, 2009
9	Met, pursuant to notice, at 9:00 a.m.
10	BEFORE:
11	MS. ALISA TAPIA, Administrative Law Judge
12	APPEARANCES:
13	MR. CHRISTOPHER W. FLYNN MR. ALBERT D. STURTEVANT
14	JONES DAY 77 West Wacker
15	Chicago, Illinois 60601 Ph. (312) 782-3939
16	(Appearing on behalf of
17	Illinois-American Water Company)
18	Company,
19	
20	
21	SULLIVAN REPORTING COMPANY, by
22	Carla J. Boehl, Reporter

1	APPEARANCES: (Continued)
2	MR. JOHN J. REICHART MS. JONI K. OTT
3	Corporate Counsel 727 Craig Road
4	St. Louis, Missouri 63141 Ph. (314) 996-2287
5	
6	(Appearing on behalf of Illinois-American Water Company)
7	MD THURDDY M ALDEDIN
8	MR. JEFFREY M. ALPERIN TRESSLER, LLP
	305 West Briarcliff Road
9	Bolingbrook, Illinois 60440
10	Ph. (630) 759-0800
11	(Appearing on behalf of the Village of Bolingbrook)
12	MR. RICHARD C. BALOUGH BALOUGH LAW OFFICES, LLC
13	1 North LaSalle Street, Suite 1910 Chicago, Illinois 60602
14	Ph. (312) 499-0000
15	(Appearing on behalf of the Cities of Champaign, Urbana and
16	the Villages of Homer Glen, St. Joseph, Savoy and Sidney)
17	MS. LINDA M. BUELL
18	Office of General Counsel 527 East Capitol Avenue
19	Springfield, Illinois 62701 Ph. (217) 557-1142
20	
21	(Appearing on behalf of Staff of the Illinois Commerce Commission)
22	

1	APPEARANCES: (Continued)
2	MR. MICHAEL LANNON Office of General Counsel
3	160 North LaSalle, Suite C-800 Chicago, Illinois 60601
4	Ph. (312) 814-4368
5	(Appearing on behalf of Staff of the Illinois Commerce
6	Commission)
7	MS. KAVITA CHOPRA MS. KRISTIN MUNSCH
8	Attorneys at Law 309 West Washington, Suite 800
9	Chicago, Illinois 60606 Ph. (312) 263-4282
10	(Appearing on behalf of the
11	Citizens Utility Board)
12	MR. RYAN ROBERTSON MR. ERIC ROBERTSON
13	LUEDERS, ROBERTSON & KONZEN P.O. Box 735
14	1939 Delmar Avenue
15	Granite City, Illinois 62040 Ph. (618) 876-8500
16	(Appearing on behalf of the Illinois Industrial Water
17	Consumers)
18	MS. SUSAN L. SATTER Assistant Attorney General
19	100 West Randolph Street, 11th Floor Chicago, Illinois 60601
20	Ph. (312) 814-8496
21	(Appearing via teleconference
	on behalf of the People of the

1		<u>IND</u>	E X		
2		5-5-6-	GD 0 G G		777777
3	WITNESS	DIRECT	CROSS	REDIRECT	RECROSS
4	CHRISTOPHER THOMAS By Ms. Munsch	344			
5	BERNARD UFFELMAN	2.4.7			
6	By Mr. Flynn By Mr. Balough	347	352		
7	By Ms. Satter By Mr. Alperin		361 403		
0					
8	RICH KERCKHOVE BY Mr. Sturtevant	406		444/448	
9	By Mr. Robertson		413		
10	By Mr. Balough By Ms. Satter		416 434		447 446
10	by Ms. Satter		434		440
11	EDWARD J. GRUBB				
12	By Mr. Sturtevant By Mr. Balough	450	454		
12	By Ms. Satter		464		
13	-				
14					
15					
16					
17					
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19					
20					
21					

1 EXHIBITS

2		MARKED	ADMITTED
3	IAWC:		
4	5.00SUPP, 5.01SUPP, 5.02SUPP,	e-docket	454
5	5.03SUPP, 5.00R1, 5.00R2(Rev), 5.01R2, 5.02R2, 5.00SR, 5.01SR, 5.02SR		
6			
7	6.00, 6.00SUPP, 6.01SUPP (Rev), 6.02SUPP (Rev), 6.03SUPP (Rev), 6.04SUPP,	e-docket	412
8	6.00SUPP 2nd, 6.00R1, 6.01R1 (Rev), 6.02R1 (Rev),		
9	6.03R1 (Rev), 6.04R1 thru		
10	6.16R1, 6.17R1 (1st Rev), 6.00R2, 6.01R2, 6.02R2, 6.03R2, 6.00SR, 6.01SR thru		
11	6.09SR		
12	10.00, 10.00SUPP, 10.01SUPP (Rev), 10.00R, 10.00SR (Rev)	e-docket	352
13	AG Cross 8	209	341
14	AG Cross 9 AG Cross 10	209 209 209	341 341
15	AG Cross 12	249	341
16	AG Cross 15 AG Cross 16	$\begin{array}{c} 440 \\ 441 \end{array}$	<u>-</u>
10	AG Cross 17	486	486
17	AG Cross 18	486	486
18	IIWC Cross 4	234	463
	IIWC Cross 5	234	463
19	IIWC Cross 6	234	463
20	CUB 1.0, 1.1	e-docket	
21	CUB 2.0	e-docket	346
21			
22			

334

1 PROCEEDINGS

- 2 JUDGE TAPIA: By the authority vested in me by
- 3 the Illinois Commerce Commission, I now call Docket
- 4 Number 09-0319. This docket concerns a general
- 5 increase in rates for delivery services submitted by
- 6 Illinois-American Water Company.
- 7 May I have appearances for the record,
- 8 please?
- 9 MR. STURTEVANT: Appearing on behalf of
- 10 Illinois-American Water Company, Albert Sturtevant
- 11 and Chris Flynn, Jones Day, 77 West Wacker, Chicago,
- 12 Illinois 60601.
- 13 MR. REICHART: Also appearing on behalf of
- 14 Illinois-American Water Company, John Reichart and
- Joni Ott, 727 Craig Road, St. Louis, Missouri 63141.
- 16 MS. MUNSCH: Appearing on behalf of the
- 17 Citizens Utility Board, Kavita Chopra and Kristin
- 18 Munsch, 309 West Washington, Suite 800, Chicago,
- 19 Illinois 60606.
- 20 MR. BALOUGH: Appearing on behalf of the Cities
- of Champaign, Urbana and the Villages of Homer Glen,
- 22 St. Joseph, Savoy and Sidney, Richard C. Balough,

- 1 Balough Law Offices, LLC, One North LaSalle Street,
- 2 Suite 1910, Chicago, Illinois 60602.
- 3 MS. SATTER: Appearing on behalf of the People
- 4 of the State of Illinois, Susan L. Satter, 100 West
- 5 Randolph Street, Chicago, Illinois 60601.
- 6 MS. BUELL: Appearing on behalf of Staff
- 7 witnesses of the Illinois Commerce Commission, Linda
- 8 M. Buell, 527 East Capitol Avenue, Springfield,
- 9 Illinois 62701.
- 10 MR. LANNON: Also appearing on behalf of the
- 11 Staff of the Illinois Commerce Commission, Michael
- 12 Lannon, 160 North LaSalle Street, Suite C-800,
- 13 Chicago, Illinois 60601.
- 14 MR. E. ROBERTSON: On behalf of the Illinois
- 15 Industrial Water Consumers, Eric Robertson and Ryan
- 16 Robertson, Lueders, Robertson and Konzen, 1939
- 17 Delmar, Granite City, Illinois 62040.
- 18 MR. ALPERIN: Appearing on behalf of the
- 19 Village of Bolingbrook, Jeff Alperin, Tressler, LLP,
- 20 305 West Briarcliff, Bolingbrook, Illinois 60440.
- JUDGE TAPIA: Is there anyone else wishing to
- 22 enter an appearance? Okay.

- Before we proceed with witnesses,
- 2 there were things that we deferred to today. There
- 3 were exhibits offered into evidence and I believe it
- 4 was Mr. Reichart who reserved whether or not he had
- 5 an objection. Now, these exhibits were AG Cross
- 6 Exhibit 12.
- 7 MR. REICHART: And 8, 9 and 10 as well.
- JUDGE TAPIA: Oh, it was 8, 9 and 10?
- 9 MR. REICHART: Yes. Three of them came about
- in response to -- one of them came about in response
- 11 to the cross of Cheryl Norton and three came in
- 12 response to the cross of Jeffrey Kaiser.
- 13 Judge, these are all exhibits -- or
- 14 each of the exhibits represents information that was
- provided in response to a particular data request,
- 16 that being Data Request Number AG 1.3. We would ask
- 17 that the actual data request and the short narrative
- 18 response that was included as kind of the cover page
- 19 to this response be included with the attachments
- 20 identified by Ms. Satter for submission.
- 21 JUDGE TAPIA: So there is a -- you said there
- is an addition to it, a cover page?

- 1 MR. REICHART: Yes, there is a cover page that
- 2 basically has the data request and our response, our
- 3 narrative response, and in addition to the narrative
- 4 response there were several attachments, four of
- 5 which are the exhibits that the Attorney General has
- 6 offered.
- JUDGE TAPIA: Ms. Satter?
- 8 MS. SATTER: The narrative response was not
- 9 short. The narrative response was maybe five pages,
- 10 single spaced, with all kinds of references and it
- 11 was very dense. I did not offer it because I did not
- 12 want to cross-examine the witness on it. And the
- 13 witnesses were present yesterday. This cover page
- 14 and extensive narrative could have been offered at
- 15 that time, and it wasn't. I am not prepared to go
- 16 back over that narrative and comb through it, and
- 17 that is why we offered what we did for the witnesses
- 18 that we offered it for. It was not offered for the
- 19 individual whose name -- who evidently did the
- 20 response. It was just for those particular events
- 21 that were indicated and described by those exhibits
- 22 and e-mails.

- 1 So I would object to including the
- 2 cover page. I would not object to including the
- 3 question and maybe a short answer. But five pages of
- 4 single spaced narrative I would object to.
- 5 MR. REICHART: Judge, I think the narrative and
- 6 answer put the attachments that are proffered into
- 7 the proper context, you know, why they were provided
- 8 and how they were provided in response to what
- 9 specific question.
- 10 Ms. Satter is correct that none of the
- 11 witnesses addressed the data request response
- 12 specifically and that was because, as she also
- indicated, the data request was originally responded
- 14 to by two separate witnesses, neither of whom the
- 15 cross exhibits were used for yesterday.
- 16 JUDGE TAPIA: Okay. I tend to agree with
- 17 Ms. Satter. I think it was her cross examination and
- 18 she was using it for a limited purpose and only
- 19 focused on certain areas. And I think that although
- 20 it is good to include everything in its entirety, I
- 21 think Ms. Satter's cross was limited and only focused
- on the areas that she focused. So they will be

- 1 admitted as stated by Ms. Satter.
- 2 MR. REICHART: Judge, I am sorry. May I ask
- 3 then, we would certainly accept Ms. Satter's
- 4 suggestion that at least the data request question be
- 5 included as a cover to the cross exhibits, just to
- 6 put the exhibits into the proper context.
- JUDGE TAPIA: Okay.
- 8 MS. SATTER: I can suggest we can just read the
- 9 question into the record.
- 10 MR. REICHART: That's fine.
- 11 JUDGE TAPIA: Okay, if you want.
- 12 MR. REICHART: Do you want to read it?
- 13 JUDGE TAPIA: And then, Ms. Satter, then at the
- 14 end would you offer it to be entered into the
- 15 evidence and then I will go ahead.
- 16 MS. SATTER: Offer these exhibits again?
- 17 JUDGE TAPIA: Right.
- 18 MS. SATTER: Okay. So, well, I would like to
- 19 then offer AG Cross Exhibits 8, 9, 10 and 12 into
- 20 evidence, and to add to that offer the question that
- 21 the exhibits were produced in response to. And that
- 22 question was in AG Data Request 1.3 and it said,

- 1 "Regarding the direct testimony of Karla Teasley,
- 2 IAWC Exhibit 1.0, lines 477 through 481, please
- 3 identify and produce each and every document in which
- 4 Ms. Teasley or any other representative or agent of
- 5 IAWC rejected, challenged or otherwise questioned a
- 6 charge for a service provided by the service company
- 7 for the years 2007, 2008, 2009 and the test year."
- 8 JUDGE TAPIA: Thank you. And Mr. Reichart's
- 9 objection is noted for the record.
- 10 MR. REICHART: Thank you.
- JUDGE TAPIA: AG Cross Exhibits 8, 9, 10 and 12
- 12 are admitted into evidence.
- 13 (Whereupon AG Cross Exhibits 8,
- 14 9, 10 and 12 were admitted into
- 15 evidence.)
- 16 There was also a question in regards
- 17 to Illinois-American Water Company 3.00, the direct
- 18 testimony of Mr. Kaiser, along with 3.00SUPP, 3.00R1,
- 19 R2 (Revised) and SR (revised), is that right? Did we
- 20 reserve that for today? I think Ms. Satter had an
- 21 objection?
- MS. SATTER: No.

- 1 JUDGE TAPIA: Did anyone have an objection to
- 2 that?
- 3 MR. REICHART: I don't believe so.
- 4 MS. SATTER: I don't have an objection.
- 5 MR. REICHART: Maybe for housekeeping could we
- 6 reiterate they were admitted?
- 7 JUDGE TAPIA: Okay. And, of course, it will be
- 8 indicated they were admitted yesterday. I guess I
- 9 ruled on it. So that wasn't in question.
- 10 Were those the only exhibits that we
- 11 reserved for today?
- MS. SATTER: I believe so.
- 13 JUDGE TAPIA: All right. Then we can go ahead
- 14 and proceed. The Company could call their next
- 15 witness.
- 16 MS. MUNSCH: Your Honor, we actually have a
- 17 couple matters to take care of since the schedule was
- 18 changed around, if we could for a moment.
- 19 JUDGE TAPIA: Okay.
- 20 MS. MUNSCH: First, in agreement CUB has agreed
- 21 to waive cross of Company witness Ahern, and I have
- before me what I have labeled as CUB Cross Exhibit 1.

- 1 This is Ms. Ahern's response to Staff Data Request
- 2 MGM 1.09.
- JUDGE TAPIA: And that's a CUB exhibit?
- 4 MS. MUNSCH: Yeah, it is going to be CUB Cross
- 5 Exhibit Number 1, if we could.
- And then, secondly, we would like to
- 7 enter the testimony of Chris Thomas who is here. So
- 8 we could do that this morning, if we could.
- 9 JUDGE TAPIA: And you have filed an affidavit?
- 10 MS. MUNSCH: No, he is actually here, so we
- 11 would like to call him to the stand.
- 12 JUDGE TAPIA: So we are going to call
- 13 Mr. Thomas first?
- MS. MUNSCH: Thank you, Your Honor.
- 15 JUDGE TAPIA: Mr. Thomas, if you could raise
- 16 your right hand?
- 17 (Whereupon the witness was duly
- sworn by Judge Tapia.)
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1 CHRISTOPHER THOMAS

- 2 called as a witness on behalf of the Citizens Utility
- 3 Board, having been first duly sworn, was examined and
- 4 testified as follows:
- 5 DIRECT EXAMINATION
- 6 BY MS. MUNSCH:
- 7 Q. Good morning, Mr. Thomas.
- 8 A. Good morning.
- 9 Q. Do you have before you what has been marked
- 10 for the record as CUB Exhibit 1.0?
- 11 A. I do.
- 12 Q. And this is the direct testimony of
- 13 Christopher C. Thomas on behalf of the Citizens
- 14 Utility Board that was filed on October 2, 2009, is
- 15 that correct?
- 16 A. That is correct.
- Q. And did you prepare this or was it prepared
- 18 under your supervision or control?
- 19 A. It was.
- Q. And if you were asked the same questions,
- 21 would you give the same answers today?
- 22 A. I would.

- 1 Q. Do you have any corrections you would like
- 2 to make at this time?
- A. I don't.
- 4 Q. Thank you. Do you have before you what has
- 5 been marked as CUB Exhibit 2.0?
- 6 A. Yes.
- 7 Q. And that is the rebuttal testimony of
- 8 Christopher Thomas on behalf of the Citizens Utility
- 9 Board?
- 10 A. Yes.
- 11 Q. That was filed on November 13, 2009?
- 12 A. Correct.
- Q. Was this prepared by you or under your
- 14 supervision and control?
- 15 A. It was.
- 16 Q. If you were asked the same questions today,
- 17 would you give the same answers?
- 18 A. I would.
- 19 Q. Do you have any corrections you would like
- 20 to make?
- 21 A. I don't.
- Q. I think actually we also have CUB Exhibit

- 1 1.1, I realize as well. I think that is the docket
- 2 summary of your prior testimony. Do you have any
- 3 changes you would like to make to that?
- 4 A. I don't.
- 5 (Witness excused.)
- 6 MS. MUNSCH: At this time we would ask that CUB
- 7 Exhibit 1.0, 1.1 and 2.0 be entered into the record.
- 8 JUDGE TAPIA: Any objection to the admission of
- 9 those?
- 10 MR. FLYNN: No objection.
- 11 JUDGE TAPIA: Then CUB Exhibit, direct
- 12 testimony of Mr. Thomas, 1.0, the rebuttal testimony
- 13 2.0 and 1.1 will be admitted into evidence.
- 14 (Whereupon CUB Exhibits 1.0, 1.1
- and 2.0 were admitted into
- 16 evidence.)
- 17 MS. MUNSCH: Thank you, Your Honor.
- 18 JUDGE TAPIA: You are welcome. Will the
- 19 Company call the next witness?
- 20 MR. FLYNN: Yes. Our next witness is
- 21 Mr. Uffelman.
- JUDGE TAPIA: Mr. Uffelman, would you please

- 1 raise your right hand?
- 2 (Whereupon the witness was duly
- 3 sworn by Judge Tapia.)
- 4 JUDGE TAPIA: Mr. Flynn, proceed.
- 5 BERNARD L. UFFELMAN
- 6 called as a witness on behalf of Illinois-American
- 7 Water Company, having been first duly sworn, was
- 8 examined and testified as follows:
- 9 DIRECT EXAMINATION
- 10 BY MR. FLYNN:
- 11 Q. Good morning.
- 12 A. Good morning.
- Q. Would you please state your name and spell
- 14 it for the record.
- 15 A. Bernard L. Uffelman, capital U as in Uncle,
- 16 F-F as in Frank, E-L-M-A-N.
- Q. Mr. Uffelman, by whom are you employed?
- 18 A. I am employed -- I am self-employed. I am
- 19 President of Uffelman Advisory Services.
- 20 Q. And were you asked by Illinois-American
- 21 Water Company to prepare testimony and exhibits for
- this proceeding?

- 1 A. I was.
- Q. Did you prepare direct testimony in this
- 3 case?
- 4 A. Yes.
- 5 Q. Showing you a document previously marked as
- 6 IAWC Exhibit 10.00 bearing the caption Direct
- 7 Testimony of Bernard L. Uffelman. Is this a copy of
- 8 your direct testimony in this case?
- 9 A. Yes, it is.
- 10 Q. Is it true and correct to the best of your
- 11 knowledge?
- 12 A. Yes.
- Q. And did you also prepare supplemental
- 14 direct testimony in this case?
- 15 A. Yes.
- 16 Q. Show you a document previously marked as
- 17 IAWC 10.00SUPP. Is this a copy of your supplemental
- 18 direct testimony?
- 19 A. Yes.
- Q. Is it true and correct to the best of your
- 21 knowledge?
- 22 A. Yes.

- 1 Q. Did you also in the course of your
- 2 supplemental direct testimony sponsor and identify an
- 3 exhibit bearing a caption Service Company Outside
- 4 Provider Market Cost Comparison?
- 5 A. I am sorry?
- 6 Q. Identified as IAWC Exhibit 10.01SUPP
- 7 (Revised)?
- 8 A. Yes.
- 9 O. And is the information on that exhibit true
- and correct to the best of your knowledge?
- 11 A. Yes, as revised.
- 12 Q. Did you also prepare rebuttal testimony in
- 13 this case?
- 14 A. Yes.
- 15 Q. Directing your attention to an exhibit
- 16 previously marked as IAWC Exhibit 10.00R, is this a
- 17 copy of your rebuttal testimony?
- 18 A. Yes, it is.
- 19 Q. Is it true and correct to the best of your
- 20 knowledge?
- 21 A. Yes.
- Q. Lastly, did you also prepare surrebuttal

- 1 testimony in this case?
- 2 A. Yes.
- 3 Q. Directing your attention to a document
- 4 previously marked as IAWC Exhibit 10.00SR, is this a
- 5 copy of your surrebuttal testimony?
- 6 A. Yes.
- 7 O. And is it true and correct to the best of
- 8 your knowledge?
- 9 A. Yes.
- 10 MR. FLYNN: Your Honor, at this time I would
- 11 move for admission into evidence the following
- 12 exhibits on behalf of Illinois-American Water
- 13 Company: 10.00, 10.00SUPP, 10.01SUPP (Revised),
- 14 10.00R and 10.00SR.
- 15 JUDGE TAPIA: Any objection to the admission of
- 16 the exhibits just stated by Mr. Flynn?
- MS. BUELL: Mr. Flynn, was Mr. Uffelman's
- 18 surrebuttal testimony revised surrebuttal testimony?
- 19 MR. FLYNN: Yes, it is and I erred. So I would
- 20 like to go back and clarify that with the witness.
- 21 Thank you.
- MS. BUELL: You are welcome.

- 1 BY MR. FLYNN:
- Q. Mr. Uffelman, with respect to your
- 3 surrebuttal testimony, I will ask you if the document
- 4 marked as IAWC 10.00SR (Revised) is a copy of your
- 5 surrebuttal testimony.
- A. Yes, it is.
- 7 Q. And is that true and correct to the best of
- 8 your knowledge?
- 9 A. I do not have a copy of the revised
- 10 version.
- 11 Yes.
- MR. FLYNN: With that, I would withdraw my
- 13 prior motion and make the following motion, for
- 14 admission into evidence of the following IAWC
- 15 exhibits: 10.00, 10.00SUPP, 10.01SUPP (Revised),
- 16 10.00R, 10.00SR (Revised).
- 17 JUDGE TAPIA: Any objection to the admission of
- 18 the exhibits that Mr. Flynn just stated?
- 19 MS. SATTER: Can I just ask, the revisions were
- 20 contained in the errata that was filed, is that
- 21 correct?
- 22 MR. STURTEVANT: Yes.

- 1 MS. SATTER: Thank you.
- JUDGE TAPIA: Hearing no objection, the
- 3 exhibits are entered into evidence.
- 4 (Whereupon IAWC Exhibit 10.00,
- 5 10.00SUPP, 10.01SUPP (Revised),
- 6 10.00R and 10.00SR (Revised)
- 7 were admitted into evidence.)
- 8 MR. FLYNN: Mr. Uffelman is available for cross
- 9 examination.
- 10 JUDGE TAPIA: Mr. Balough, would you like to go
- 11 first?
- MR. BALOUGH: We flipped a coin.
- 13 CROSS EXAMINATION
- 14 BY MR. BALOUGH:
- 15 Q. Good morning, Mr. Uffelman.
- 16 A. Good morning.
- 17 Q. My name is Mr. Richard Balough and I
- 18 represent various municipalities. I think we met
- 19 before and we probably met way before, back in
- 20 Austin.
- 21 Mr. Uffelman, I would like you to turn
- 22 first to page 4 and 5 of your testimony. This would

- 1 be your original testimony.
- 2 MR. FLYNN: Direct?
- 3 MR. BALOUGH: Pardon?
- 4 MR. FLYNN: Is that direct testimony?
- 5 MR. BALOUGH: Direct testimony.
- 6 A. Okay, I have that.
- 7 Q. And on those pages you discuss the study
- 8 that Ms. Teasley did regarding the self-provision
- 9 study, is that correct?
- 10 A. Yes.
- 11 Q. Did you participate in that, the
- 12 preparation of the self-provision study?
- 13 A. No, I did not.
- Q. So anything that is in the self-provision
- 15 study that you discuss is based totally upon what
- 16 Ms. Teasley did, is that correct?
- 17 A. That's correct.
- Q. And you did no independent analysis of the
- 19 self-provision study, is that correct?
- 20 A. That's correct.
- 21 Q. If you can turn then to page 6 of your
- 22 surrebuttal testimony?

- 1 A. I have that.
- Q. Am I correct in that testimony you state
- 3 that a developer includes contributions that it may
- 4 have made as part of construction to a
- 5 municipally-owned utility, they include that in the
- 6 price of a home?
- 7 A. The price of a home or the price of a lot,
- 8 yes.
- 9 Q. Can you tell me which developers in Mokena
- 10 that you talked to, to come up with this statement?
- 11 A. I did not discuss this with any developers.
- 12 Q. Would that be true for any city or village
- 13 to which you refer in your testimony, that you did
- 14 not talk to any developers?
- 15 A. We discussed this in the original report
- 16 that was issued in Docket 07-0507, and similar
- 17 language was in the original report. And that is how
- developers would have to recover their costs, if they
- 19 are going to recover their costs, is through the
- 20 price of the lot or home.
- 21 Q. I would like to go back to my original
- 22 question. Which particular developers in the state

- of Illinois have you talked to concerning that they
- 2 include contributions in the cost of the homes?
- 3 A. I have not talked to any developers.
- 4 Q. Have you done any studies concerning the
- 5 operational costs for water utility service in
- 6 Mokena?
- 7 A. I have not.
- 8 Q. Have you done any studies concerning the
- 9 operational costs for water utility in New Lenox?
- 10 A. I have not.
- 11 Q. On page 8 of your surrebuttal testimony you
- 12 calculate, I believe, the Illinois-American's
- increase for sewer and water from 2005 to 2009 at
- 14 16.56 percent, is that correct?
- 15 A. Yes.
- 16 Q. Do you know the percentage increase that
- 17 Illinois-American has proposed for the Chicago metro
- 18 area for water service in this case?
- 19 A. I do not.
- 20 Q. Do you know what the percent increase in
- 21 this case is as requested for by Illinois-American
- 22 for waste water collection and treatment for the

- 1 Chicago metro area?
- 2 A. I am sure I have seen those numbers, but I
- 3 do not have those with me.
- 4 Q. Would I also be correct that you do not
- 5 know what the percentage increase for fire protection
- 6 service is for the Chicago metro district?
- 7 A. No.
- Q. You reviewed the Homer Glen Exhibit 4.0,
- 9 the rebuttal testimony of Aaron Fundich, is that
- 10 correct?
- 11 A. Yes.
- Q. Do you have that testimony with you?
- 13 A. Yes.
- 14 Q. If you could turn to page 10 of that
- 15 testimony, are you with me?
- 16 A. Yes.
- Q. At lines, I believe, starting at 203 to
- 18 208, that is one of the comparisons between Mokena
- 19 and New Lenox and Homer Glen that you reference in
- 20 your testimony, is that correct?
- 21 A. Yes.
- 22 Q. Am I correct that one of your -- that you

- 1 state that Mokena and New Lenox since at least
- 2 between 2005 and 2009 have increased their rates as
- 3 well?
- 4 A. Yes.
- 5 Q. And some of those rates have been, I
- 6 believe you say, double digit increases?
- 7 A. According to Mr. Fundich's calculation,
- 8 that is correct.
- 9 Q. Can you tell me what the -- according to
- 10 Mr. Fundich's testimony which you have reviewed and
- 11 commented upon, at 8,000 gallons, the cost for water
- 12 and sewer for Mokena is \$74.31, is that correct?
- 13 A. For Mokena.
- 14 O. For Mokena.
- 15 A. Yes.
- 16 Q. And under existing rates that same usage
- 17 for Homer Glen for a customer would be \$136.48, is
- 18 that correct?
- 19 A. According to Mr. Fundich's table, yes.
- 20 Q. And using Mr. -- assuming for a moment that
- 21 Mr. Fundich's table is correct at least for purposes
- 22 of the question, what would be the percentage of

- 1 increase that Mokena's rates would have to be to be
- 2 the same as Homer Glen's existing rates?
- 3 A. Approximately 83 percent.
- 4 Q. And could you also tell me what the
- 5 increase in Mokena's rate percentage-wise would have
- 6 to be, assuming for a moment that Mr. Fundich's
- 7 testimony at line 219 for that same customer, if the
- 8 rates were approved, the charge would be \$193.47 for
- 9 that customer?
- 10 A. It would be an approximate 260 percent
- 11 increase. That assumes that the Company is granted
- 12 its full increase. And it also assumes that Mokena
- 13 would have no increases through the test year.
- 14 O. That's correct. In essence, what you are
- 15 taking -- I don't mean to oversimplify things but
- 16 that's the way I am -- you are taking the percentage
- increase of \$74.31 versus \$193.47 to come up with
- 18 that calculation?
- 19 A. Yes.
- 20 O. And we could do the same for New Lenox
- 21 which is at \$77.08 going up to \$193.47. Not wanting
- to belabor the record, but it would be, would you

- 1 agree, that would be in excess of 200 percent easily?
- 2 A. Yes.
- Q. And that's well beyond the double digit
- 4 increase that you reference in your testimony, is
- 5 that correct?
- 6 A. Which double digit increase are you
- 7 referring to?
- Q. Page 9 of your surrebuttal testimony, that
- 9 the update provided by Ms. Niemiec represents rate
- increases of 12.47 and 16.48 for New Lenox -- for
- 11 Mokena and New Lenox in just the last nine months?
- 12 A. That's just for Mokena and New Lenox in the
- 13 last nine months. And you asked me what the increase
- 14 would be between Mokena's current rates to the
- difference between Illinois-American's rates during
- 16 the forecasted test period if they were granted a
- 17 hundred percent of the increase. So you did not ask
- 18 me what the current percent of Homer Glen's
- 19 Illinois-American's water increase is to the amount
- 20 in the forecast. So you are not comparing apples to
- 21 apples. You are looking at the increase for Mokena
- 22 and New Lenox versus the difference between,

- 1 percentage difference in rates, between
- 2 Illinois-American and Mokena for test period versus
- 3 the current rates. So I think there is a disconnect
- 4 there.
- 5 Q. Okay. Well, let's assume for a moment that
- 6 we take the Mokena rate and we increase it by 12.47
- 7 percent and compare it to the proposed increase of
- 8 \$193.47 for Illinois-American. We are still going to
- 9 see triple digit increase in percentage, is that
- 10 correct?
- 11 A. Could you repeat the question?
- 12 Q. Sure. Assuming for a moment that you feel
- 13 uncomfortable because there is a potential 12.47
- 14 percent increase for Mokena.
- 15 A. That was the last increase, yes.
- 16 Q. Yes. And would you agree with me that
- 17 that's reflected in the \$74.31?
- 18 A. Yes.
- 19 O. It is, okay. So the percentages that we
- 20 are talking about include this increase as reflected
- on page 9 of your surrebuttal?
- 22 A. Assuming that Mr. Fundich included the

- 1 rates that he shows for Mokena of 74.31 reflects the
- 2 most recent increase that they had, I believe it was,
- 3 in October, so whenever the numbers were updated.
- 4 MR. BALOUGH: Okay. I have no other questions.
- 5 Thank you.
- 6 JUDGE TAPIA: Thank you, Mr. Balough.
- 7 Ms. Satter?
- 8 MS. SATTER: Thank you.
- 9 CROSS EXAMINATION
- 10 BY MS. SATTER:
- 11 Q. Hello, Mr. Uffelman. My name is Susan
- 12 Satter. I represent the People of the State of
- 13 Illinois. I am going to ask you if you could either
- 14 speak more closely to the mic or speak up. I was
- 15 having a little bit of difficulty hearing you.
- 16 A. Sure.
- Q. Okay, thank you. Turning first to your
- 18 direct testimony where you describe the service
- 19 company study that you do?
- 20 A. Yes.
- Q. You say that this study is a market
- 22 comparison for services that IAWC can effectively

- 1 outsource to either an affiliate or a non-affiliate
- 2 provider. So my question is, do you agree with
- 3 Ms. Teasley that services related to corporate
- 4 governance, customer service centers and employee
- 5 benefits call center cannot easily be provided by a
- 6 non-affiliate?
- 7 A. That is a determination that
- 8 Illinois-American has made, and in this case I agree
- 9 with their decision.
- 10 O. So those items are not included in the
- 11 market rate analysis that you did?
- 12 A. Right, the corporate governance, the call
- 13 centers and the OPEB.
- 14 Q. The employee benefits cost?
- 15 A. Yes, customer call center and employee
- 16 benefits call center and corporate governance, right,
- is covered in the self-provision study.
- 18 Q. Now, you and Mark Young, as representatives
- 19 of Deloitte and Touche were retained by the Company
- 20 to conduct this study, is that right?
- 21 A. That is correct.
- 22 Q. And can you tell me when you were retained?

- 1 A. I think the engagement letter was signed in
- 2 January. We went through a proposal process, and I
- 3 am not going to remember the specific dates off hand.
- 4 Q. Would that be January 2009?
- 5 A. Yes. I am sorry.
- 6 Q. And you were retained at the same time that
- 7 Deloitte and Touche was retained, is that right?
- 8 A. I am sorry, can you --
- 9 Q. Were you retained at the same time that
- 10 Deloitte and Touche was retained?
- 11 A. Yes. The Company retained Deloitte and
- 12 Touche, and Deloitte and Touche retained me, yes.
- Q. And were you retained by Illinois-American
- 14 Company or by the service company itself?
- 15 A. I believe it was through Jones Day as well
- 16 as Illinois-American Water Company.
- 17 Q. And you were retained to prepare this study
- 18 as part of this rate case filing that was planned for
- 19 2009, is that correct?
- 20 A. That is correct.
- 21 Q. Now, you understand that American Water is
- 22 the largest investor-owned United States water and

- waste water utility, is that right?
- 2 A. That's correct.
- 3 Q. And it provides water, waste water and
- 4 other services to about 15 million people in 32
- 5 states in the United States; does that sound right to
- 6 you?
- 7 A. Yes.
- 8 Q. And American Water Company is the parent of
- 9 Illinois-American Water Company, right?
- 10 A. Yes.
- 11 Q. And American Water Company is also the
- 12 parent of American Water Works Service Company, is
- 13 that right?
- 14 A. Yes.
- 15 Q. And what your study looked at were the
- 16 charges of American Water Works Service Company to
- 17 its affiliate Illinois-American Water Company?
- 18 A. That's correct.
- 19 Q. Now, you say that -- I am going call
- 20 American Water Works Service Company just service
- 21 company.
- 22 A. Okay.

- 1 Q. So the service company provides governance
- 2 and support services to American Water Company
- 3 affiliates, right?
- 4 A. Yes.
- 5 Q. And would you consider managerial and
- 6 professional support services the same as governance
- 7 and support services?
- 8 A. Not necessarily.
- 9 Q. They are not the same?
- 10 A. Governance, when I think of governance, I
- 11 think of a very high level of responsibility within
- 12 the organization and sometimes referred to
- 13 management, professional duties as maybe not at a
- 14 level of corporate governance.
- 15 Q. Can you give me an example of the function
- that would fall within governance?
- 17 A. Sure. Be the president setting the
- 18 policies for the corporation based on guidance from
- 19 the board of directors.
- 20 Q. So when you say president, that would be
- 21 the American Water Works president -- the Company,
- 22 American Water Company president?

- 1 A. Yes.
- Q. What about relations between the parent
- 3 company and the operating company? Would that be
- 4 considered governance?
- 5 A. Yes.
- 6 Q. Now, you agree that American Water
- 7 Company's business model is to have a single service
- 8 company provide comprehensive services to its
- 9 affiliates?
- 10 A. Yes. Now, within the service company, just
- 11 so we are clear, there are other locations, business
- 12 units and functions that are provided up through
- 13 American Water Works Service Company's service
- 14 companies.
- 15 Q. I am sorry?
- 16 A. There are other locations and business
- 17 units that provide services, say, to the affiliates
- 18 like Illinois-American Water Company that are within
- 19 American Water Service Company as set out in this
- 20 study, our study, as well as described by the other
- 21 witnesses, the other Illinois-American Water
- 22 witnesses, Water Company witnesses.

- 1 Q. So you are saying that the service company
- 2 itself then is subdivided into smaller units or
- 3 smaller companies?
- 4 A. Well, different locations and different
- 5 business units, but it is all the American Water
- 6 Works Service Company service companies.
- 7 Q. And that service company, no matter which
- 8 piece of it, provides services to the various
- 9 affiliates of American Water Company, both regulated
- 10 and non-regulated?
- 11 A. Yes.
- 12 Q. Now, in the study you say that service
- 13 companies are common in the utility industry and
- 14 provides support services to affiliates in a
- 15 centralized manner resulting in cost efficiencies to
- 16 affiliates by eliminating the need for affiliates to
- 17 perform support functions on a stand-alone basis.
- 18 That's on page 3 of your study. So you believe that
- 19 the service company structure is an efficient form of
- 20 organization, is that right?
- 21 A. I do.
- 22 Q. Now, in your study you gathered information

- 1 from the service company to project the level of
- 2 service costs for Illinois-American's test year, is
- 3 that right?
- A. Sorry, could you repeat that?
- 5 Q. Did you gather information from the service
- 6 company to determine Illinois-American's projected
- 7 level of service costs for the 2010 test year?
- 8 A. Yes. We obtained information that we
- 9 requested from the service company for our study.
- 10 O. And did the service company provide you
- 11 with the total cost to Illinois-American for the test
- 12 year?
- A. We did.
- 0. And did the service --
- 15 A. For those costs that were included in our
- 16 study, not in the self-provision study.
- 17 Q. So were there -- so you made a distinction
- 18 within the costs. You didn't look at the full \$22
- 19 million that is in the test year for service company
- 20 costs, is that right?
- 21 A. That's correct.
- 22 Q. Do you know what amount you did look at?

- 1 A. I have the total company amount which is on
- 2 Exhibit 5, but I do not have the work papers that
- 3 show the amount that was included in the study,
- 4 without doing some calculations.
- 5 Q. So you don't have that amount, okay.
- 6 You said that you received the service
- 7 company cost to Illinois-American for the test year
- 8 from the service company itself and then you made --
- 9 and then you removed the items, the costs, associated
- 10 with services that were not subject to the study, is
- 11 that right?
- 12 A. No, those costs were removed.
- Q. And did you get any information from
- 14 Illinois-American Water Company?
- 15 A. Yes, I did.
- 16 Q. What information did you get from
- 17 Illinois-American?
- 18 A. There was a reconciliation of what was
- 19 removed, which I cannot find right now.
- O. There was a reconciliation of?
- 21 A. The costs that were --
- 22 Q. Do you know how many people worked on this

- 1 study with you? I know Mr. Mark Young did.
- 2 A. Mark Young. And there was another
- 3 director, another full time staff consultant and two
- 4 or three other individuals that worked on it.
- 5 Q. So in all about five people?
- 6 A. Yes.
- 7 Q. Five or six people.
- 8 Do you know whether specific services
- 9 are charged to the Company, to Illinois-American, at
- 10 different rates? In other words, are legal services
- 11 charged at a different rate from engineering
- 12 services, at a different rate from IT services?
- 13 A. In the study or --
- 0. No, in actuality.
- 15 A. In actuality, if there is a service
- 16 provided for an individual company, say
- 17 Illinois-American Water Company, then that charge is
- 18 directly charged to Illinois-American Water. And if,
- 19 whether it be for accounting services or legal
- 20 services, if there is an allocation of costs, if it's
- 21 performed for more than one, as discussed in
- 22 Mr. Grubb's testimony, then it goes through the

- 1 allocation process that's been approved by the
- 2 Commission to get to the non-regulated affiliates and
- 3 the regulated affiliates.
- 4 O. Okay. So if it is a direct cost --
- 5 A. So it would be the same cost you get to,
- 6 though.
- 7 Q. I am going to ask you to speak up a little
- 8 bit. I am still having difficulty hearing.
- 9 Now, in your study you have basically
- 10 two categories of costs, right? You have
- 11 compensation and overhead, is that right?
- 12 A. That's correct. But there are various
- 13 levels of overhead which roll up into what the
- 14 company calls levels one through five. So, yes,
- 15 basically it is labor, labor-related overheads, other
- office related overhead and then some other
- overheads, yes.
- 18 O. The other overheads are also office
- 19 related, though, or equipment related?
- 20 A. Could be equipment related, could be
- 21 training, travel, whatever.
- Q. Oh, could include travel and that sort of

- 1 thing?
- 2 A. Right. I have to get the list of their
- 3 overheads to answer you specifically. If you want to
- 4 know, I can get that document.
- 5 Q. Well, I am just trying to understand how
- 6 the service company charges are determined and what
- 7 you looked at.
- 8 A. Right. Well, the costs are fully loaded.
- 9 They started out with each individual and then loaded
- 10 the specific labor overheads, the other office
- 11 overheads, space, whatever it may be and the other
- 12 overheads.
- Q. So you start with an individual, what their
- 14 salary is, and then you add and then you break that
- down per hour somehow and then you take that hourly
- 16 and add the loading?
- 17 A. Yes, based on head count. You allocate
- 18 those costs.
- 19 Q. Now, you used the total number of hours
- 20 that the service company was supposed to devote to
- 21 Illinois-American in the test year, right? You
- determined what the total hours would be?

- 1 A. Yes, the company provided that on
- 2 schedules, on certain schedules.
- 3 Q. The company being the service company?
- 4 A. Yes.
- 5 Q. And then you say you obtained a unitized
- 6 cost per hour which in your study you call the
- 7 service company rate. My question is, was the
- 8 service company rate the total test year cost,
- 9 subject to your study, divided by the total number of
- 10 hours attributed to the services that the costs were
- 11 supposed to cover?
- 12 A. For the hours and the costs that were given
- 13 for the study, yes. For each individual the company
- 14 went through a process to include the direct salary
- 15 costs as well as applicable overheads and they also
- 16 wrote in for the administrative staff and executive
- 17 assistants, their time, into that individual because
- 18 to get a fully-loaded service company number.
- 19 Because we did not look at those specific type of
- 20 costs, because in our market analysis those type of
- 21 costs are typically included in the billing rates of
- 22 the professionals providing services. So the company

- 1 -- we asked the company to roll those into the
- 2 individual costs, the hourly rate.
- 3 Q. When the service company determines the
- 4 charges to Illinois-American, do they charge for
- 5 administrative and executive assistants separately,
- 6 do you know?
- 7 A. I don't know if that's charged directly or
- 8 not. But for our purposes for the comparison, it was
- 9 rolled into each professional manager and
- 10 professional position.
- 11 Q. Did you have a separate service company
- 12 charge for the separate functions that you looked at,
- 13 accounting, engineering, legal, etc., or did you have
- 14 like a single charge and a single number of hours?
- 15 A. I am not sure I understand your question.
- 16 Can you maybe rephrase that?
- 17 Q. Okay. Were different service company --
- 18 let me put it this way.
- 19 Did you determine the number of hours
- 20 attributable to each type of function, you know,
- 21 accounting, engineering?
- 22 A. Yes.

- 1 Q. So you had -- for each of these categories
- 2 you had a number of hours?
- 3 A. Yes. Each category, accounting services,
- 4 engineering, information technology, legal and
- 5 management consulting as shown in the schedules came
- 6 up with a cost per classification for each one of
- 7 those categories.
- 8 Q. And then you took the costs per
- 9 classification and divided it by the number of hours
- 10 that were attributable to that classification to come
- 11 up with a rate?
- 12 A. Well, the service company rate came from
- 13 the service company based on the hours and the fully
- 14 loaded costs that came over. That was divided by the
- 15 hours. That's how that calculation is made.
- 16 O. So the number of hours was a constant in
- 17 your analysis?
- 18 A. The number of hours were provided by the
- 19 company in total, like for accounting and then for
- 20 each classification that we asked them to assign the
- 21 hours to the costs, yes.
- Q. And when you looked at how much it would

- 1 cost a non-affiliated provider to perform the same
- 2 functions, you assumed the same number of hours would
- 3 be necessary to provide the same functions, is that
- 4 right?
- 5 A. Yes.
- 6 Q. In your -- oh, let me ask one other
- 7 question. I am sorry.
- 8 Another thing that you did in the
- 9 study was you made this distribution among
- 10 professional levels to determine how many hours would
- 11 be charged at different levels, a partner level, an
- 12 associate level, you know, clerk level, that sort of
- 13 thing?
- 14 A. Yes.
- 15 Q. Did you use a formula to make that
- 16 distribution?
- 17 A. No.
- 18 Q. How did you make that distribution?
- 19 A. That distribution was developed by Deloitte
- 20 and by the service company and Illinois-American
- 21 Water Company. We provided the service company with
- the information regarding the classifications of

- 1 service, accounting, engineering, etc., and also for
- 2 those service categories, accounting, engineering, we
- 3 provided the service classification, like partner,
- 4 director, for accountants, managers, because those
- 5 were in the surveys that we used. So we provided
- 6 that information to Illinois-American Water Company
- 7 with a description of those job classifications, if
- 8 you will.
- 9 And then they, working with us, went
- 10 and matched their employees to the job descriptions,
- job classifications, that we provided.
- 12 Q. Now, you said Illinois-American did that?
- 13 A. Right.
- 14 O. You mean --
- 15 A. The service company, yes.
- 16 Q. And then you used that same distribution in
- 17 your analysis of the non-affiliated providers?
- 18 A. It was the service company that did the
- 19 work. However, within the service company there were
- 20 at different locations the mapping, where the mapping
- 21 took place, it was reviewed by the functional leaders
- 22 within that group, whether it be accounting or

- 1 engineering. So to make sure there was a proper
- 2 matching based on the level of experience and
- 3 education as provided to the service company, what we
- 4 provided.
- 5 Q. And so you said you used the same
- 6 distribution that the service company established for
- 7 your non-affiliated providers, is that right?
- I thought you said yes, but then you
- 9 kind of went on to something else, so I am just
- 10 trying to be clear.
- 11 A. I am sorry. Can you clarify that?
- 12 Q. Sure. You did a distribution of costs; for
- 13 each service you distributed it among different
- levels within that service category?
- 15 A. Working with the service company.
- 16 O. Okay. So you made that distribution. Then
- 17 did you take that same distribution and apply it to
- 18 your analysis of the non-affiliated providers of
- 19 whatever that particular service was?
- 20 A. Yes. We used the hours for that
- 21 distribution, applied that to the hourly rates that
- 22 were in the surveys that we used in our market

- 1 analysis, yes.
- Q. Okay. Thank you. I think I understand.
- Now, turning briefly to your
- 4 supplemental testimony, you recognize that the
- 5 service company charge was increased by about
- 6 \$500,000, right?
- 7 A. Yes.
- Q. And you attribute that to a 2.81 increase
- 9 in the hourly charge; that's right, isn't it?
- 10 A. Yes, that was Mr. Kerckhove or Mr. Grubb
- did that calculation. So, yes, that \$544,000
- increase was attributed to approximately a 2.81
- 13 percent increase in the hourly rates.
- 14 O. So then are we to assume that the employees
- of the service company received a 2.81 percent
- 16 increase in compensation?
- 17 A. No. I don't know what caused that
- 18 increase. It could have been different activities,
- 19 additional activities. It could be, you know, other
- 20 things other than -- you can't assume it is salaries.
- 21 Q. So you don't really know what caused --
- 22 what the underlying increased cost was, do you?

- 1 A. Well, I believe it is mentioned in
- 2 Mr. Kerckhove's testimony. I can read that to you,
- 3 if you would like.
- 4 Q. I am just asking what you know.
- 5 Mr. Kerckhove will be up later.
- 6 A. I am sorry?
- 7 Q. I am just asking if you know.
- 8 A. Yes, I have read his testimony.
- 9 Q. So whatever he said is the extent of your
- 10 knowledge?
- 11 A. Right. We did not go and look at the
- 12 specifics of what caused that \$544,000 increase. It
- was an update to the test year which is typically
- 14 done.
- Q. Do you know about how many hours it took to
- 16 do this report?
- 17 A. It was -- I don't have that number off
- 18 hand, no.
- 19 Q. Now, I wanted to ask you a few questions
- 20 about your rebuttal testimony which goes to a
- 21 completely different subject. In your testimony at
- 22 various points you talk about reasonable rates?

- 1 A. Yes.
- Q. And so my question to you is, when you use
- 3 the term reasonable, are you referring to reasonable
- 4 as a cost plus -- or, excuse me, as a rate based on
- 5 cost of service?
- 6 A. Yes.
- 7 Q. So in order to determine if something is
- 8 reasonable or unreasonable, the question is whether
- 9 the underlying costs are reasonable or unreasonable?
- 10 A. Yes, based on the cost of service study
- 11 whether the underlying costs and investments are
- 12 reasonable, yes.
- 13 Q. So then you would agree if the Commission
- 14 finds a particular operating cost unreasonable, then
- 15 a rate based on that would be unreasonable as well?
- 16 A. Well, if the Commission sets a rate, then
- 17 all the costs that are included in that rate are
- 18 deemed reasonable.
- 19 Q. And it is the Commission's responsibility
- 20 to review the costs and remove costs that it finds
- 21 are unreasonable, is that correct?
- 22 A. Reasonable and necessary, yes.

- 1 Q. So from your point of view, by definition,
- 2 once the Commission approves a rate, it is
- 3 reasonable?
- A. Yes, that's a typical standard.
- 5 Q. Okay. Now, in your testimony you talk
- 6 about the difference between municipal utilities and
- 7 investor-owned utilities?
- 8 A. Yes.
- 9 Q. And in talking about investor-owned
- 10 utilities you say that investor-owned utilities'
- 11 current customers pay applicable depreciation costs,
- is that correct?
- 13 A. I am sorry?
- 14 O. For investor-owned utilities, current
- 15 customers pay the applicable depreciation costs?
- 16 A. Yes, depreciation expense is included as a
- 17 cost of service component.
- 18 Q. Can you tell me what the purpose of the
- 19 depreciation expense is?
- 20 A. The purpose of the depreciation expense is
- 21 to recover the original cost of the investment in
- 22 plant and other facilities.

- 1 O. Does it enable -- does it provide capital
- 2 to the company to maintain and maybe replace the
- 3 plant as it ages?
- 4 A. Yes.
- 5 Q. And so would you agree that although
- 6 depreciation expense might add to the cost of service
- 7 in the short run, in the long run it could create a
- 8 more stable rate?
- 9 A. Everything being equal and no additional
- 10 investments using straight line depreciation, that
- 11 factor would be the same. That factor, depreciation
- 12 expense, would be the same unless it was changed
- 13 through a depreciation study and factored into new
- 14 rates.
- 15 Q. So that would create a stability in the
- 16 rates?
- 17 A. To the extent that the company can recover
- 18 its costs in rates, yes.
- 19 Q. And by receiving the revenue to maintain
- 20 and replace plant, the company has smoothed out the
- 21 costs to replace plant. In other words, it is
- 22 receiving that money over time instead of having to

- 1 fund it all at one point in time, is that right?
- 2 A. Well, it's how the company is -- how the
- 3 original plant is, the company receives the recovery
- 4 of those original costs. That's what depreciation
- 5 is. It is systematic and rational expensing over a
- 6 period of time. And when the Commission sets a rate,
- 7 yes, it is a straight line depreciation. It can be
- 8 used for other things, but it is really the recovery
- 9 of the initial investment.
- 10 Q. And are you suggesting that municipal
- 11 utilities do not recover the costs of their
- 12 investment in their rates?
- 13 A. No, I didn't say that. I am not suggesting
- 14 that they do not recover. What I am suggesting is
- 15 that municipalities often defer capital recovery,
- 16 one, because they are on a cash basis and typically
- 17 do not set rates that would recover depreciation
- 18 expense in rates. They do have what's called a debt
- 19 service requirement which may be looked at in the way
- 20 of recovery of their investment. However, they
- 21 oftentimes may refinance that, that debt, so that
- 22 they are not currently matching the cost, the

- depreciation, if you will, on investment that's used
- 2 to provide service. So there is many times
- 3 municipalities defer that costs, where investor-owned
- 4 utilities such as Illinois-American Water Company
- 5 recover that cost currently in rates.
- 6 Q. So if Illinois-American is recovering it
- 7 currently in rates, then would you expect less
- 8 volatility in their rates because they don't have to
- 9 suddenly replace a plant that they have not already
- 10 recovered the revenues for or recovered their costs
- 11 for?
- 12 A. Well, they may have -- you say suddenly
- 13 replace, there may be a factor where the plant is
- 14 damaged or equipment is damaged that they have not
- 15 recovered through depreciation of cost yet. Or they
- 16 may have added new plant which adds to the
- depreciation expense on a going forward basis.
- Q. Whenever you add new plant, you have
- 19 additional expense, isn't that correct?
- 20 A. Yes.
- Q. Now, you also discuss pension and OPEB
- 22 costs?

- 1 A. Yes.
- Q. As comparing a cash system versus an
- 3 accrual system, right?
- 4 A. Yes.
- 5 Q. Now, whether you pay on a cash or an
- 6 accrual basis, whether you account for these costs on
- 7 a cash or accrual basis, ultimately the operation has
- 8 to pay those costs, is that right?
- 9 A. Yes. It is a matter of timing when those
- 10 costs are recovered in rates.
- 11 Q. Do you think that accrual accounting,
- 12 again, smooths volatility of rates compared to cash
- 13 accounting?
- 14 A. Yes, I do.
- Q. Now, in your testimony you say that
- 16 municipal utilities may use shared resources with the
- 17 municipality, is that right?
- 18 A. Yes.
- 19 Q. And you comment that some of the
- 20 municipalities who submitted testimony in this case
- 21 did not have a cost of service study, a current cost
- of service study, is that right?

- 1 A. They did not have a current cost of service
- 2 study and they did not have a current cost allocation
- 3 study.
- 4 Q. And they would only need those studies for
- 5 internal purposes, isn't that right, because they are
- 6 not subject to an external regulatory body?
- 7 A. They would need that, yes, for internal
- 8 purposes, to set rates or to manage their operations.
- 9 Q. But without reviewing a cost of service
- 10 study, you really don't know whether a municipal
- 11 utility understates or correctly states its use of
- 12 shared services, isn't that correct?
- 13 A. Without a cost allocation study, you really
- 14 don't know if the municipal utility is receiving
- 15 subsidies from the other governmental operations
- 16 because you cannot tell if they are receiving fully
- 17 allocated costs. There may be some sharing of
- 18 resources, both managerial and facilities, that are
- 19 not allocated to the municipality.
- 20 And also without a cost of service
- 21 study, as you say, you do not know whether the
- 22 municipal utility has an operating income or

- 1 operating loss or whether the net income is positive
- 2 or negative, so another reason you cannot compare
- 3 rates for municipality utility to an investor-owned.
- Q. When you say you can't compare rates, you
- 5 mean you can't compare them for purposes of -- for
- 6 certain purposes. I mean, anybody can sit down and
- 7 look at one rate next to the other, right?
- 8 A. Yes.
- 9 Q. And, in fact, when you go into a store to
- 10 buy something, you compare the rate -- you compare
- 11 the price on the shelves, don't you?
- 12 A. Yes, but you cannot tell whether or not the
- 13 seller is making a profit or not or operating at a
- loss or a profit, so.
- 15 Q. All you know when you go to purchase a
- 16 product is the ultimate price to the consumer, isn't
- 17 that right?
- 18 A. Yes.
- 19 O. And it's up to the seller to manage the
- 20 seller's cost to enable it to provide that service,
- 21 isn't that right? I am not talking about water
- 22 utilities. I am speaking in general in our economy.

- 1 A. It's up to them to, since they are
- 2 unregulated, to determine the pricing of a product,
- 3 yes.
- 4 Q. And the way that they are priced is limited
- 5 is through competition, right?
- 6 A. Competition is supply and demand.
- 7 Q. So if there are two products on the shelf
- 8 and one of the products is \$5, the other product is
- 9 \$10, but all else is equal, then in theory a rational
- 10 consumer would take the lesser priced product, isn't
- 11 that economic theory?
- 12 A. Yes.
- Q. And that would put pressure on the \$10
- 14 supplier to reduce his price, is that right, in order
- 15 to obtain customers; is that right?
- 16 A. It depends on the quantity that he has
- 17 available. If he only has a certain amount available
- 18 to sell, maybe he won't come off his \$10 -- he won't
- 19 come off the \$10 price. Because once he sells it,
- then they are gone.
- Q. So then he is happy?
- 22 A. Right.

- 1 Q. Because he has no more costs and no more
- 2 product?
- 3 A. Right. So there is many things you have to
- 4 look at.
- 5 Q. But ordinarily a supplier would try to
- 6 reduce his costs so that his price would be more in
- 7 line with the competitive price, wouldn't you agree?
- 8 A. That's correct. But in a competitive world
- 9 you can also earn more than the regulated return if
- 10 there is a demand for a product and certain supply
- 11 limitations. You can earn much more as well. It
- works the other way as well.
- 13 O. And that's because of the risk that the
- 14 consumer can go elsewhere and leave that \$10 product
- 15 sitting on the shelf indefinitely, is that right?
- 16 A. They don't have to buy the product, right.
- Q. Now, in a monopoly situation, you would
- agree with me, that the \$10 product will not stay on
- 19 the shelf even if somebody else can produce it for \$5
- 20 because the consumer has no choice, right?
- 21 A. I am assuming that there are different --
- 22 that these products are both based on cost of

- 1 service, and that's why you have utilities operated
- 2 as a monopoly, so you do not have duplication of
- 3 facilities, etc., that those prices are based on cost
- 4 to provide the service. So if you are asking me can
- 5 someone decide not to take the \$5, I mean, the \$10
- 6 service, yes, they have options on which they can
- 7 move or they can conserve whatever the product is.
- 8 Q. And monopoly services are protected from
- 9 competition on the theory that it is less expensive
- 10 to provide certain network services like utilities to
- 11 the greatest number of people based on the
- infrastructure, isn't that right?
- 13 A. That's correct.
- 14 O. And that's where the regulatory commission
- 15 comes in, to review those, the costs, for the
- 16 monopoly to make sure that they are reasonable for
- 17 the service that's being provided?
- 18 A. That's correct.
- 19 O. And in the competitive market that function
- 20 is provided by competitors?
- 21 A. Yes.
- Q. And competitors look -- consumers look at

- 1 the end price to determine whether the costs to
- 2 control -- let me try to put this in a more brief
- 3 way.
- 4 In a competitive market the price of a
- 5 product reflects whether the costs that go into
- 6 making the product are reasonable or not or are
- 7 acceptable to the consumer or not?
- 8 A. I think that is the case. However, someone
- 9 may buy a product at above the cost to produce.
- 10 Q. I am sorry, someone may --
- 11 A. Someone may purchase a product at a price
- 12 that is higher than the cost to produce that product
- 13 or services.
- 14 O. Sure. And that's where the competitive
- 15 market -- some people might like a designer coat and
- 16 somebody else might like a WalMart coat?
- 17 A. Yes.
- 18 Q. And people make those choices, but that's
- 19 not what we are talking about here. We are not
- 20 talking about those types of price differences, are
- 21 we?
- 22 A. I thought you were talking about -- are you

- 1 talking about monopoly utility services?
- Q. I am just talking about all else equal, a
- 3 product that's the same except for the price.
- A. Well, assuming availability, quality and
- 5 everything else being equal, I would say yes.
- 6 Q. Now, you commented earlier about shared
- 7 resource subsidization and that there might be a 20
- 8 percent under allocation for shared resources?
- 9 A. Yes.
- 10 Q. Now, do you remember that when you did your
- 11 study in Illinois-American's last rate case in
- 12 07-0507, you did a calculation for the city or
- 13 Village of Woodridge, and you determined that adding
- 14 20 percent to the shared services would have
- increased the rate per thousand gallons by seven
- 16 cents. That's on page 4 of that study.
- 17 A. I am sorry, page?
- 18 Q. Four.
- 19 A. Of?
- 20 O. The Exhibit 10.20 in the last case.
- 21 A. 10.20?
- 22 Q. Yes.

- 1 A. Oh, I see it, yes. Thank you.
- 2 Q. So that was the order of magnitude of the
- 3 effect of adding 20 percent to the shared services
- 4 cost?
- 5 A. For Woodridge, yes.
- 6 Q. For Woodridge, all right.
- 7 Mr. Balough asked you about developer
- 8 contributed plant, and I just wanted to ask you
- 9 whether you are aware that Illinois-American also has
- 10 contributed plant?
- 11 A. Yes. The Illinois Commerce Commission
- 12 dictates those type of rules. And it is my
- 13 understanding that they do have contribution in
- 14 plants but not to the same extent as the municipals
- 15 do.
- 16 Q. And if the Commission or other policymakers
- 17 thought that that would be an important way to cut
- 18 costs, the policy of requiring contributed plant is
- 19 something that could be modified, isn't that right?
- 20 A. It may be modified. There is certain tax
- 21 implications and I am sure quality of service and
- things like that, but I guess it could be modified,

- 1 yes.
- Q. I mean, the utility doesn't earn a return
- 3 on contributed plant, isn't that right?
- 4 A. That is correct.
- 5 Q. Okay. So to the extent that there is
- 6 contributed plant, the utility would have a lower
- 7 rate base on which to earn a return?
- 8 A. Yes.
- 9 O. And that could translate into a lower cost
- 10 for service?
- 11 A. Yes.
- 12 Q. In your testimony you also refer to the
- 13 DuPage Water Commission and the fact that they have a
- 14 sales tax increment?
- 15 A. Yes.
- 16 Q. If that helps. And you understand, of
- 17 course, that Illinois-American provides service in
- 18 DuPage County and provides water from the DuPage
- 19 Water Commission?
- 20 A. Yes, that's mentioned in the study.
- 21 However, Illinois-American does not take the same
- 22 amount of water as some municipalities do and they

- 1 also do not have the same rate because the other
- 2 municipalities are charter members. So there is a
- 3 little difference there as well.
- 4 Q. So there is some municipalities that are
- 5 charter members and some that aren't?
- 6 A. That is correct.
- 7 Q. Illinois-American is in the category of the
- 8 companies that are not?
- 9 A. That's right.
- 10 Q. Okay. And the DuPage Water Commission
- 11 water is provided to Illinois-American customers
- 12 under the purchased water charge, is that correct?
- 13 A. Yes.
- 14 O. So those customers do receive the benefit
- of whatever subsidy there might exist for the DuPage
- 16 Water Commission?
- 17 A. Illinois-American's customers would benefit
- 18 from those tax subsidies as well, yes.
- 19 Q. Now, would you agree with me that the
- 20 consumers whose testimony you comment on and
- 21 municipalities whose testimony you comment on, when
- 22 they discuss whether rates are reasonable or

- 1 unreasonable, they are not using the term reasonable
- 2 as a term of art, would you agree with that, as a
- 3 Public Utilities Act term of art?
- 4 MR. FLYNN: I am going to object. I am going
- 5 to object on the grounds that, to the extent I
- 6 followed the question, Ms. Satter was asking the
- 7 witness to speculate on what someone else was
- 8 thinking. I would also ask, since we are now about
- 9 an hour and a half or so into Mr. Uffelman's cross
- 10 examination, whether we might be coming up on an
- 11 appropriate point for a break.
- MS. SATTER: I am really close to finishing.
- 13 It is up to you. I could take a break or not, but I
- 14 am just saying --
- JUDGE TAPIA: I don't want to limit you. In
- 16 regards to your objection speculation, I would
- 17 sustain that.
- And as far as a break goes, we can
- 19 break now for ten minutes and then you can continue
- 20 and then, Mr. Alperin, you can go ahead and do your
- 21 cross.
- 22 MR. ALPERIN: I have very limited cross.

- 1 MS. SATTER: That sounds good.
- JUDGE TAPIA: Let's take a ten-minute break.
- 3 (Whereupon the hearing was in a
- 4 short recess.)
- 5 JUDGE TAPIA: We will go back on the record.
- 6 Ms. Satter, you may continue.
- 7 BY MS. SATTER:
- 8 Q. Hello, Mr. Uffelman. I understand that our
- 9 mics are fixed now; they weren't before.
- 10 A. Is that better? Yes.
- 11 Q. Thank you. I just wanted to ask you, would
- 12 you agree with me that the common definition of the
- word "reasonable" is not excessive or extreme,
- 14 moderate, fair?
- 15 A. Yes.
- 16 Q. Appropriate, ordinary, are those all
- 17 synonyms for reasonable?
- 18 A. Yes.
- 19 Q. Using the common definition.
- 20 A. Yes.
- 21 Q. Now, you testified that when a developer
- 22 contributes plant to a municipal utility, you would

- 1 expect the price of the home to be higher, is that
- 2 right?
- 3 A. Yes.
- 4 Q. And so effectively in your view the owner
- 5 of the home pays for that plant through the purchase
- 6 price?
- 7 A. Yes.
- 8 Q. And you would agree with me that the
- 9 housing market is quite competitive?
- 10 A. I would say it depends.
- 11 Q. Let's take the Chicagoland area. Would you
- 12 agree that there are many -- that home buyers have
- many choices?
- 14 A. Yes.
- 15 Q. And the prices that the seller can obtain
- 16 are affected by the choices that home buyers have in
- 17 a particular market?
- 18 A. Yes. Sale price is affected by many
- 19 variables.
- Q. And the extent of contributed plant is one
- 21 of the variables that the seller has to consider, is
- that right, in setting his price?

- 1 A. Yes.
- Q. And other variables that the seller would
- 3 consider would be the seller's financing, for
- 4 example, the seller's building expenses, whatever
- 5 taxes the seller has to pay; wouldn't you agree these
- 6 are all costs that go into the seller's assessment of
- 7 a reasonable asking price?
- 8 A. I don't understand how the seller's taxes
- 9 they have to pay -- maybe I am missing the point. I
- 10 think the buyer would look at the taxes that they
- 11 would have to pay.
- 12 Q. I don't mean taxes on the transaction. I
- just mean operational expenses.
- 14 A. The seller would have to consider that, was
- 15 your question?
- 16 Q. Yeah, the seller considers all of its
- 17 operations and expenses in setting a sales price, an
- 18 asking price?
- 19 A. Yes.
- 20 Q. And the extent to which the developer can
- 21 recover the costs of contributed plant for water or
- 22 sewer does depend on many factors such as the

- 1 availability of other homes of equivalent stock in
- the area, other prices, financing that's available,
- 3 all of these things go into the extent to which the
- 4 developer can recover that cost in particular?
- 5 A. Yes, I think there is many variables.
- 6 Q. It is not a straight pass through?
- 7 A. It could be a pass through. It could be
- 8 even markup, depending on the demand for the home.
- 9 Q. But if consumers have a choice, they can go
- 10 elsewhere and not accept that markup or the price can
- 11 be reduced, isn't that right?
- 12 A. That is correct.
- 13 Q. Now, you have done a lot of work in the
- 14 public utility field over your career, and would you
- 15 agree that it is important that the public accept the
- 16 rates of a public utility that is fair and
- 17 reasonable?
- 18 A. That the public accept the rates of a
- 19 public utility as fair and reasonable?
- 20 O. Yeah.
- 21 A. Yes.
- 22 Q. And have you looked at the public comments

- 1 filed on the ICC's website in connection with this
- 2 case?
- A. No, I have not.
- 4 Q. Did you come to any of the public meetings
- 5 that were held in the service territory of
- 6 Illinois-American Water Company in connection with
- 7 this case?
- 8 A. No.
- 9 Q. Have you reviewed any studies about water
- 10 level affordability, water price affordability?
- 11 A. Other than what was in the municipal
- 12 witnesses' testimony and some of their exhibits
- associated with their testimony, no.
- Q. Okay, thank you. I have nothing -- oh, I
- 15 have one other matter that I wanted to see if you
- 16 could do.
- 17 I asked you earlier how much of the
- 18 service company cost was subject to your study
- 19 because you said it was not the full 22 million. And
- 20 I don't believe you were able to find that. Would it
- 21 be possible to obtain that for the record at some
- 22 point?

- 1 MR. FLYNN: Yes, we can provide that for the
- 2 record, if you would like, as a late-filed exhibit or
- 3 other.
- 4 MS. SATTER: That will be fine. You will file
- 5 that as a late-filed exhibit?
- 6 MR. FLYNN: Yes.
- 7 MS. SATTER: Thank you very much.
- 8 MR. UFFELMAN: You are welcome.
- 9 JUDGE TAPIA: Mr. Alperin?
- 10 MR. ALPERIN: Thank you.
- 11 CROSS EXAMINATION
- 12 BY MR. ALPERIN:
- Q. Mr. Uffelman, my name is Jeff Alperin. I
- 14 represent the Village of Bolingbrook in this matter,
- and I just have a couple of questions for you here
- 16 this morning.
- 17 How much were you paid for the service
- 18 company cost study?
- 19 A. Deloitte and Touche was engaged in
- 20 performing this service company cost study and they
- 21 did the billings so for all the resources that were
- 22 used.

- 1 Q. How much did your company receive for the
- 2 service company study?
- 3 A. I do not have the amount that I was
- 4 reimbursed for preparing this study with me.
- 5 Q. Do you have an estimate of how much that
- 6 is?
- 7 A. No, I do not.
- 8 Q. You have no idea how much you were paid?
- 9 A. Up to the preparation of the study, I would
- 10 be guessing without looking at the invoices.
- 11 Q. Well, I don't want you to guess, but I just
- 12 find it hard to believe that you can't give me an
- 13 estimate, at least.
- A. Substantially I think it was 125, 150,000
- maybe.
- 16 Q. And how much will you receive for your
- 17 testimony? Does that number include your testimony?
- 18 A. No.
- 19 O. And --
- 20 A. It does not include the preparation of my
- 21 direct testimony, the rebuttal and surrebuttal
- 22 testimony.

- 1 Q. So including all of that as well as your
- 2 testimony here today, how much will you receive for
- 3 your testimony?
- 4 A. I would say another maybe 50,000, 60,000,
- 5 something like that.
- 6 Q. And then counsel had asked you previously
- 7 about the number of hours it took for you to complete
- 8 your report and you didn't have that exact number
- 9 with you, and I understand that. But can you give me
- 10 an estimate of the number of hours that you spent on
- 11 the service company cost study?
- 12 A. I would say approximately 500 hours or so.
- 13 Maybe a little more.
- 14 MR. ALPERIN: Thank you. That's all the
- 15 questions I had.
- 16 JUDGE TAPIA: Thank you, Mr. Alperin. Mr.
- 17 Flynn, do you have any redirect?
- MR. FLYNN: No, we do not.
- 19 (Witness excused.)
- JUDGE TAPIA: The Company will call their next
- 21 witness?
- MR. FLYNN: Yes, that's going to be

- 1 Mr. Kerckhove. We will designate the exhibit we will
- 2 file as 10.00LF.
- JUDGE TAPIA: LF?
- 4 MR. FLYNN: LF, late-filed.
- 5 JUDGE TAPIA: Mr. Kerckhove, would you raise
- 6 your right hand?
- 7 (Whereupon the witness was duly
- 8 sworn by Judge Tapia.)
- 9 JUDGE TAPIA: Whenever you are ready,
- 10 Mr. Sturtevant.
- 11 MR. STURTEVANT: Thank you, Your Honor.
- 12 RICH KERCKHOVE
- 13 called as a witness on behalf of Illinois-American
- 14 Water Company, having been first duly sworn, was
- 15 examined and testified as follows:
- 16 DIRECT EXAMINATION
- 17 BY MR. STURTEVANT:
- Q. Good morning, Mr. Kerckhove.
- 19 A. Good morning.
- 20 Q. Can you state your name and business
- 21 address for the record, please?
- 22 A. My name is Rich Kerckhove. My business

- 1 address is 727 Craig Road, St. Louis, Missouri 63141.
- 2 Q. And by whom are you employed?
- 3 A. I am employed by American Water Works
- 4 Service Company, Inc.
- 5 Q. And what is your position with American
- 6 Water Works Service Company, Inc.?
- 7 A. I am Manager of Rates and Regulation.
- Q. Mr. Kerckhove, I have what has been marked
- 9 as IAWC 6.00, the direct testimony of Rich Kerckhove,
- 10 did you prepare or direct the preparation of this
- 11 testimony?
- 12 A. Yes, I did.
- 13 Q. If I were to ask you today the questions
- 14 contained in this testimony, would your answers be
- 15 the same?
- 16 A. Yes.
- 17 Q. And is the information contained in this
- 18 testimony true and correct to the best of your
- 19 knowledge and belief?
- 20 A. The version that I have, on page 1, line 9
- 21 shows me as a senior financial analyst instead of a
- 22 manager of rates and regulation. So that should be

- 1 corrected.
- Q. And with that correction is this testimony
- 3 true and correct to the best of your knowledge?
- 4 A. Yes.
- 5 Q. And, I am sorry, can you just refer us one
- 6 more time to where that correction is?
- 7 A. Line 9.
- 8 Q. Of page 1?
- 9 A. Yes.
- 10 MR. STURTEVANT: Your Honor, I guess we would
- 11 propose to file a corrected version on e-Docket, if
- 12 that's acceptable.
- JUDGE TAPIA: Yes, that's fine.
- 14 BY MR. STURTEVANT:
- Q. All right. Mr. Kerckhove, I now have what
- has been marked as IAWC 6.00SUPP, Supplemental Direct
- 17 Testimony of Rich Kerckhove, and accompanying
- exhibits 6.01SUPP (Revised), 6.02SUPP (Revised),
- 19 6.03SUPP (Revised) and 6.04SUPP. Did you prepare or
- 20 direct the preparation of these testimony and
- 21 exhibits?
- 22 A. Yes.

- 1 Q. If I were to ask you the questions in the
- 2 testimony today, would your answers be the same?
- 3 A. Yes.
- 4 Q. Is the information contained in the
- 5 testimony and exhibits true and correct to the best
- 6 of your knowledge?
- 7 A. Yes, it is.
- Q. I also have what has been marked as IAWC
- 9 6.00SUPP 2nd, the Second Supplemental Direct
- 10 Testimony of Rich Kerckhove. Did you prepare or
- 11 cause to be prepared this testimony?
- 12 A. Yes.
- 13 Q. And if I asked the questions contained in
- 14 this testimony today, would your answers be the same?
- 15 A. Yes, they would.
- 16 Q. And is the information contained in your
- 17 second supplemental direct testimony true and correct
- 18 to the best of your knowledge and belief?
- 19 A. Yes, it is.
- 20 O. Next I have what has been marked as IAWC
- 21 Exhibit 6.00R1 with accompanying exhibits 6.01R1
- 22 (Revised), 6.02R1 (Revised), 6.03R1 (Revised),

- 1 6.04R1, 6.05R1, 6.06R1, 6.07R1, 6.08R1, 6.09R1,
- 2 6.10R1, 6.11R1, 6.12R1, 6.13R1, 6.14R1, 6.15R1,
- 3 6.16R1 and 6.17R1. Did you prepare or direct the
- 4 preparation of this rebuttal testimony and exhibits?
- 5 A. Yes, but I also believe that 6.07R1 has
- 6 been replaced with 6.07R1 (1st Revised).
- 7 Q. Okay. So subject to 6.07R1 (1st Revised),
- 8 did you then prepare or direct the preparation of
- 9 these testimony and exhibits?
- 10 A. Yes.
- 11 Q. And if asked the questions in the testimony
- 12 today, would your answers be the same?
- 13 A. Yes.
- 14 O. Is the information contained in these
- 15 testimony and exhibits true and connect to the best
- of your knowledge?
- 17 A. Yes.
- 18 O. Next I have what has been marked as IAWC
- 19 Exhibit 6.00R2 which is also the rebuttal, the second
- 20 part of the rebuttal testimony of Rich Kerckhove.
- 21 This has accompanying exhibits 6.01R2, 6.02R2, and
- 22 6.03R2. Did you prepare or direct the preparation of

- this rebuttal testimony and exhibits?
- 2 A. Yes.
- Q. And if I asked the questions today in this
- 4 rebuttal testimony, would your answers be the same?
- 5 A. Yes.
- 6 Q. Is the information contained in this
- 7 rebuttal testimony and exhibits true and correct to
- 8 the best of your knowledge and belief?
- 9 A. Yes, it is.
- 10 Q. And, lastly, I have what has been marked as
- 11 IAWC Exhibit 6.00SR, Surrebuttal Testimony of Rich
- 12 Kerckhove, with accompanying exhibits IAWC 6.01SR,
- 13 6.02SR, 6.03SR, 6.04SR, 6.05SR, 6.06SR, 6.07SR,
- 14 6.08SR and 6.09SR. Did you prepare or direct the
- preparation of this testimony and exhibits?
- 16 A. Yes.
- 17 Q. And if I were to ask you the questions in
- 18 this testimony, the questions contained in this
- 19 testimony today, would your answers be the same?
- 20 A. Yes.
- 21 O. And is the information contained in this
- testimony and exhibits true and correct to the best

- of your knowledge and belief?
- 2 A. Yes, it is.
- 3 MR. STURTEVANT: At this time, Your Honor,
- 4 Illinois-American would move into evidence
- 5 Mr. Kerckhove's exhibits that I previously
- 6 identified.
- 7 JUDGE TAPIA: Any objection to the exhibits
- 8 that Mr. Sturtevant has stated on the record?
- 9 Hearing no objection, the exhibits
- 10 described by Mr. Sturtevant and the attachments are
- 11 entered into evidence.
- 12 (Whereupon IAWC 6.00, 6.00SUPP,
- 6.01SUPP (Revised), 6.02SUPP
- 14 (Revised), 6.03SUPP (Revised),
- 6.04SUPP, 6.00SUPP 2nd, 6.00R1,
- 16 6.01R1 (Revised), 6.02R1
- 17 (Revised), 6.03R1 (Revised),
- 18 6.04R1 through 6.16R1, 6.17R1
- 19 (1st Revised), 6.00R2, 6.01R2,
- 20 6.02R2, 6.03R2, 6.00SR, 6.01SR
- 21 through 6.09SR were admitted
- into evidence.)

- 1 JUDGE TAPIA: You may continue, Mr. Sturtevant.
- 2 MR. STURTEVANT: Mr. Kerckhove is now available
- 3 for cross examination.
- JUDGE TAPIA: Okay, thank you. Mr. Balough,
- 5 would you like to go first?
- 6 MR. E. ROBERTSON: I think they want me to go
- 7 first, Your Honor, if that's all right.
- JUDGE TAPIA: Mr. Robertson, that's fine.
- 9 CROSS EXAMINATION
- 10 BY MR. E. ROBERTSON:
- 11 Q. Still morning, so good morning,
- 12 Mr. Kerckhove. How are you?
- A. Good morning, sir.
- 14 O. My name is Eric Robertson. I represent the
- 15 Illinois Industrial Water Consumers in this case, and
- 16 I would like to refer you to your surrebuttal
- testimony 6.00SR at pages 14 and 15.
- 18 A. I have that.
- 19 Q. And there you suggest that a collection lag
- 20 is a weighted calculation and can be affected by the
- 21 length of time a customer takes to pay his or her
- 22 bill and by the amount of the customer's outstanding

- balance, is that correct?
- 2 A. That is correct.
- 3 Q. Now, on page 15 of your surrebuttal
- 4 testimony, Exhibit 6.00SR, the lines 328 through 338,
- 5 you provide an example of how the length in payment
- 6 days and the amount of the outstanding balance on a
- 7 customer's bill can affect collection lag days, is
- 8 that correct?
- 9 A. That is correct.
- 10 Q. Now, in your analysis or example at lines
- 11 337 to 338 -- strike that.
- 12 Is the analysis that you provide shown
- 13 at lines 337 to 338 of your surrebuttal testimony?
- 14 A. I think it is just a big wide 338.
- 15 Q. And in that analysis I refer to customers
- one, two, three, four and five, is that correct?
- 17 A. That is correct.
- 18 Q. Now, are all those customers in your
- 19 example residential customers?
- 20 A. These are just customers.
- Q. Okay. So you don't know what kind of
- 22 customers they are?

- 1 A. It is a hypothetical. They are just
- 2 customers. This is an example just showing the
- 3 effect of both the outstanding balance and the length
- 4 of time after the date the bill is closed to show the
- 5 effect on the collection lag versus comparison to a
- 6 simple average.
- 7 Q. So is it correct that the Illinois Commerce
- 8 Commission rules allow your Company to require
- 9 non-residential customers to pay their bills in 14
- 10 days before a late payment is charged? Would you
- 11 accept subject to check that 83 Illinois
- 12 Administrative Code Section 280.90(c) does so
- 13 provide?
- 14 A. Section 280.90 of the Illinois
- 15 Administrative Code Part C indicates that for
- 16 non-residential service, the due date printed on the
- 17 bill may not be less than 14 days after the due date
- of the postmark on the bill, if mailed, or the date
- 19 delivery is shown on the bill and delivered by other
- 20 means.
- Q. For the purpose of your example at lines
- 22 337 to 338, was it necessary for you to assume that

- 1 bills were due within 21 days of their issuance?
- 2 A. It is irrelevant.
- 3 MR. E. ROBERTSON: Okay. I don't have any
- 4 questions for you, Mr. Kerckhove, or any more
- 5 questions for you.
- 6 JUDGE TAPIA: Thank you, Mr. Robertson. Who
- 7 wants to go next?
- 8 MR. BALOUGH: I will go next.
- 9 JUDGE TAPIA: Thank you, Mr. Balough.
- 10 CROSS EXAMINATION
- 11 BY MR. BALOUGH:
- 12 Q. Good morning.
- A. Good morning, Mr. Balough. I had to check
- 14 since Mr. Robertson said it was close.
- Q. No, it is still morning. In your testimony
- 16 you discuss the QIP revenues, is that correct?
- 17 A. Which testimony?
- 18 Q. I believe it's your direct, starting around
- 19 page 8. Are you with me?
- 20 A. Yes.
- Q. Now, the QIP is the qualifying
- infrastructure plan, is that correct?

- 1 A. That is correct.
- Q. And that is a surcharge that the Company
- 3 has in certain of its districts, is that correct?
- 4 A. Yes.
- 5 Q. The purpose of that surcharge is to collect
- 6 the return on and of certain infrastructure
- 7 improvements that are made during or projected to be
- 8 made during the year, is that correct?
- 9 A. Projected to be made during which year?
- 10 Q. Well, during the year -- well, let me back
- 11 up then.
- The amount of the surcharge is
- determined on a yearly basis, is that correct?
- 14 A. Yes, except for, you know, for instances
- where, for instance, I believe that Illinois-American
- 16 put in a new QIP surcharge July 1.
- 17 Q. For the -- okay, but let's take for example
- in your testimony you are talking about the QIP
- 19 surcharge for Alton, Cairo, Interurban, etc. Has
- 20 that QIP surcharge been in effect for the entire
- 21 2009?
- 22 A. No.

- 1 Q. Was that the one that was changed as of
- 2 July?
- A. That's correct.
- 4 Q. And the change that was made in July, is
- 5 that based on a future test year?
- 6 A. That was based upon forecasted information,
- 7 yes.
- 8 O. And the forecasted information would be for
- 9 what period?
- 10 A. For July 1, 2009, through December 31,
- 11 2009.
- 12 Q. Now, as of January 1, 2010, for those
- districts will there be a QIP surcharge?
- 14 A. I imagine that there will be, yes.
- Q. Am I correct that that QIP surcharge will
- 16 be based upon projected qualifying plant for 2010?
- 17 A. It will be based upon two things. Number
- one, it will still be based upon the July 1, 2009,
- 19 through December 31, 2009, plant and the January 1,
- 20 2010, additions up to, I would say, probably around
- 21 the end of April, April 30, 2010.
- 22 Q. Now, when you talk about there would be

- 1 parts of it that are still based upon 2009, is that
- because there is reconciliation recovery?
- 3 A. It's because the rate really won't be
- 4 reset. So those 2009 amounts will still be used and
- 5 calculated in 2010 QIP, the time period of January 1,
- 6 2010, through April 30, 2010.
- 7 O. As far as the costs to be recovered from
- 8 January 1, 2010, through somewhere in April 2010, is
- 9 that based upon projections for plant to be installed
- 10 between January 1, 2010, and April of 2010?
- 11 A. It will be based upon the 13-month average
- total of those plant additions from January 1, 2010,
- 13 through April 30, 2010.
- 14 O. And January 1, 2010, through April 2010,
- 15 that's also part of the test year in this case, is
- 16 that correct?
- 17 A. That is correct.
- 18 Q. Are any of the plant that you will be
- 19 recovering in the QIP rider for Alton, Cairo, etc.,
- 20 the districts that you have QIP rider in effect, are
- 21 those -- are you also recovering the plant as part of
- 22 the test year in this case?

- 1 A. They will be recovered as part of the test
- 2 year in this case in base rates beginning May 1, but
- 3 they will be recovered in the QIP from January
- 4 through April.
- 5 Q. And how does the -- will the Company be
- 6 making an adjustment then in its 2010 test year in
- 7 this case to take out the amounts that are recovered
- 8 as part of the QIP rider?
- 9 A. I am not sure I quite understand. Is this
- 10 a different question other than -- we have removed
- 11 QIP revenues and we have removed QIP revenues from
- 12 the test year revenues in this case. I am not sure
- if that's the question you were asking.
- Q. All right. And you removed the QIP
- 15 revenues based upon the QIP rider that is in effect,
- 16 is that correct?
- 17 A. Well, we are removing them because this
- 18 proceeding is to determine the base rates.
- 19 Q. Now, the Company also has a pending case in
- 20 which it is seeking a QIP rider for the, for example,
- 21 the Chicago metro district and the Champaign
- 22 district, is that correct?

- 1 A. As well as other districts, yes.
- Q. At the time that you filed the rate case,
- 3 there were no QIP revenues to be removed from 2010
- 4 for the Chicago metro district, the Champaign
- 5 district and the other districts for the rider that's
- 6 pending, is that correct?
- 7 A. I believe that's correct.
- 8 Q. So assume for me at the moment that the QIP
- 9 rider that's pending is approved and goes into effect
- 10 prior to the base rate increase in this case. Is it
- 11 the Company's intent to start charging the QIP rider
- 12 for those months prior to the rates in this case
- 13 going into effect?
- 14 A. I don't know for sure because that may
- 15 depend upon when the Commission would allow us to
- 16 begin collecting any QIP in those districts. So I
- 17 imagine that timing will have some effect on that
- 18 decision.
- 19 O. Let's assume for a moment that the Company
- 20 makes a decision to implement the new QIP rider for
- 21 the Chicago metro, Champaign and the other districts.
- 22 How will the Company make the adjustment on the QIP

- 1 revenues as it did for the Alton, Cairo and other
- districts to include those revenues in 2010?
- 3 A. Well, they were never really included in
- 4 the forecast to begin with, so there would be no need
- 5 to exclude them.
- 6 Q. But the Company would be collecting those
- 7 revenues and that would be revenues that were not
- 8 anticipated when you filed this 2010 case, is that
- 9 correct?
- 10 A. Since we didn't put them in the forecast to
- 11 begin with, there would be no adjustment to take them
- 12 out. And, you know, as I mentioned earlier, this
- 13 proceeding is to determine our base rates, and a QIP
- is not a base rate. It is a surcharge.
- 15 Q. So your answer is that those surcharge
- 16 revenues, if you collect them, would just be revenues
- 17 that would be collected and not reflected at all in
- 18 this case?
- 19 A. I wouldn't see any need for them to be.
- 20 Q. In your -- I believe it is your
- 21 supplemental testimony, let me check. Yes, it is in
- 22 your supplemental testimony. You discuss an increase

- in the Company's projected labor expense because it
- is adding a new employee, is that correct?
- 3 A. Yes.
- 4 Q. And that new employee is going to serve as
- 5 a financial analyst for the water company?
- 6 A. That's correct.
- 7 Q. Currently, prior to -- well, prior to this
- 8 employee being added, how was the responsibility for
- 9 budgeting revenues, including the effects of customer
- 10 growth, whether in large usage customers, and
- 11 preparing month end closing and calculating income
- 12 taxes, how was that handled?
- 13 A. That was handled through service company
- 14 employees.
- 15 Q. So this is a transfer of function from the
- 16 service company over to Illinois-American Water
- 17 Company?
- 18 A. This particular individual was not
- 19 performing those services for Illinois while as an
- 20 employee of the service company.
- Q. I am sorry, is not --
- 22 A. He was not performing those services for

- 1 Illinois while in the employ of the service company.
- Q. But there was someone at the service
- 3 company who was performing those functions, is that
- 4 correct?
- 5 A. There were one and part of others, yes.
- 6 Q. As part of your adjustment then, are you
- 7 reducing the service company charges to
- 8 Illinois-American Water Company because this function
- 9 will no longer be done by the service company?
- 10 A. As I indicated, that individual wasn't
- 11 performing those services for Illinois, so we would
- 12 not be reducing service company expenses for that
- 13 individual.
- 14 O. I understand that. But my question is, the
- 15 services that this employee is now going to be
- 16 performing were previously performed by the service
- 17 company, is that correct?
- 18 A. Yes.
- 19 Q. And now the service company will not be
- 20 performing those functions, is that correct?
- 21 A. That is correct.
- 22 Q. So the charge for the service company

- 1 should be reduced to reflect the decrease in the
- 2 services that it is performing for the water company,
- 3 is that correct?
- 4 A. I am sorry, could you please restate the
- 5 question again?
- 6 Q. Since the service company is no longer
- 7 performing this function, is it not correct that the
- 8 charge for the service company should be reduced to
- 9 reflect its reduction in what it is performing for
- 10 Illinois-American Water?
- 11 A. I don't know to the extent that that has
- 12 been done.
- Q. But you would agree it should be done?
- 14 A. If those services were being performed by
- 15 the service company and are no longer going to be
- 16 performed by the service company but rather going to
- 17 be performed by Illinois-American employees, then
- 18 yes.
- 19 Q. And what procedures does either the service
- 20 company or Illinois-American have in place to make
- 21 sure that there is follow through and that the
- 22 service fee is reduced?

- 1 A. It is my understanding that
- 2 Illinois-American owned its charge for those services
- 3 provided by the service company. So, therefore, when
- 4 individuals do record their time, if no one is
- 5 recording his or her time to Illinois-American for
- 6 those services, Illinois-American would not be billed
- 7 by the service company.
- 8 Q. And when you made this adjustment in labor
- 9 expense as part of your supplemental testimony, did
- 10 you make a corresponding decrease in the service
- 11 charge to Illinois-American?
- 12 A. Again, that was the addition of an employee
- 13 who was not performing those services to
- 14 Illinois-American previously.
- 15 O. I understand that. But if the services
- 16 being removed from the service company are now being
- 17 performed by Illinois-American and customers are
- 18 going to be charged by Illinois-American, shouldn't
- 19 there be a corresponding decrease in the service
- 20 company charge, and I am asking you how did you
- 21 reflect that in the rate case?
- 22 A. I don't know if there are comparable

- 1 services or additional services being performed by
- 2 this individual that were not being performed prior.
- 3 I don't know the answer to that question.
- 4 Q. Does the service company prepay its
- 5 employees their monthly salaries?
- 6 A. I don't know what the service company does.
- 7 For me, though, and I am a service company employee
- 8 in the regional, no.
- 9 Q. Now, you discuss in your testimony items
- 10 that are prepaid by the service company, is that
- 11 correct?
- 12 MR. STURTEVANT: Can you direct us?
- Q. I believe you discussed it on your
- 14 surrebuttal testimony around page 7.
- 15 A. No, actually I discuss vendors that
- 16 Illinois-American prepays.
- 17 Q. Do you know which vendors the service
- 18 company prepays?
- 19 A. No, I do not.
- 20 Q. Do you know if the service company prepays
- 21 any vendors?
- 22 A. Well, I do not know of any, but I imagine

- 1 that they would prepay similar types of expenses as I
- 2 noted on page 7.
- Q. On page 11 of your R2 testimony you said
- 4 that the Company realizes that economic conditions
- 5 are not the same now as when the fiscal year 2009
- 6 U.S. government budget was prepared. What changes
- 7 in economic conditions are you referring to?
- 8 A. Sorry. What was that page reference again,
- 9 please?
- 10 Q. Page 11 of your R2 testimony.
- 11 A. Basically, what I am referring to are the
- 12 inflation.
- 13 Q. Is inflation the only economic condition
- 14 that has changed since -- well, the fiscal year for
- 15 U.S. government budgets will be starting in June of
- 16 2008, is that correct?
- 17 A. I believe this information that I am
- 18 referring to, when the 2009 U.S. government budget
- was prepared, goes back to, I am thinking, 2007. I
- 20 don't have that information with me.
- Q. But to the best of your recollection, the
- 22 only thing you are referring to there is the decrease

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1
     in inflation?
2
          A. Yes.
          MR. BALOUGH: I have no other questions.
3
4
          JUDGE TAPIA: Thank you, Mr. Balough.
                    Ms. Satter?
5
          MS. SATTER: Could I ask that we take lunch and
6
     continue after lunch?
7
8
          JUDGE TAPIA: Sure, we can do that. It is 10
9
     til 12:00. Okay. Why don't we break until -- let's
     just break til 1:00, make it easy.
10
11
                          (Whereupon the hearing was in
12
                          recess until 1:00 p.m.)
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- 1 AFTERNOON SESSION
- JUDGE TAPIA: We are back on the record.
- 3 Mr. Sturtevant?
- 4 MR. STURTEVANT: Yes, Your Honor, as a result
- 5 of discussions between the Company and the Attorney
- 6 General and the Village of Homer Glen and other
- 7 municipalities, we have come to a series of
- 8 arrangements regarding some of the testimony. I
- 9 guess I will just try and summarize them and ask you
- 10 guys to make sure that I am not missing any
- 11 components here.
- The surrebuttal testimony of Mr. John
- 13 Young will be withdrawn or will not be offered into
- 14 evidence. Certain portions of the rebuttal testimony
- of Mr. Ralph Smith, the Attorney General's witness,
- 16 will be also not offered into evidence, that portion
- of his testimony addressing the California Commission
- 18 proceedings and the report of those proceedings, the
- 19 so-called Overland Report will not be offered into
- 20 evidence.
- In the place of those testimonies and
- 22 exhibits that will not be offered, the Company and

- 1 the Attorney General, Village of Homer Glen have
- 2 agreed that the California PUC's order and certain
- 3 subsequent pleadings in that proceeding would be
- 4 stipulated for admission in this case. The Company
- 5 would then waive cross examination of Mr. Smith and
- 6 Mr. Fundich and the Village of Homer Glen, and the
- 7 Attorney General would waive cross examination of
- 8 Mr. John Young on Friday morning, which we hope would
- 9 mean that we could all be done with this Thursday
- 10 afternoon.
- In addition, I think the resolution
- 12 moots the pending motion to strike related to the
- 13 Overland Report. There would not have to be a
- 14 decision related to that as well.
- Did I get everything, cover all the
- 16 grounds there?
- 17 JUDGE TAPIA: So the motion filed is now
- 18 withdrawn. I am sorry, the motion by Homer Glen, the
- 19 AG?
- 20 MS. SATTER: Well, no, there was a motion to
- 21 strike filed by the Company.
- MR. STURTEVANT: That motion would be withdrawn

- or mooted. In any event, it would no longer be
- 2 relevant.
- 3 MS. BUELL: Mr. Sturtevant, did you say a
- 4 stipulation would be entered into?
- 5 MR. STURTEVANT: We are going to have a
- 6 stipulated exhibit.
- 7 MS. BUELL: And that would consist of the
- 8 California PUC order and what else did you say?
- 9 MR. STURTEVANT: And two pleadings which are
- 10 presently attached to Mr. John Young's testimony as
- 11 Exhibits 12.01 and 12.02. Those are a petition to
- 12 modify filed by California-American Water in the
- 13 California proceeding and the Division of Ratepayer
- 14 Advocates' response to that petition. So there would
- 15 be three items from the California PUC docket that we
- 16 would agree would be admitted.
- 17 MS. BUELL: Thank you.
- MR. STURTEVANT: You are welcome.
- 19 MR. BALOUGH: And the only other item would be
- 20 that we would also have agreement with the Company
- 21 concerning certain data responses that we will be
- 22 offering, I believe, tomorrow morning or just

- 1 finalizing that.
- 2 MR. STURTEVANT: Right, in lieu of cross
- 3 examination of a number of witnesses over the course
- 4 of the week.
- 5 JUDGE TAPIA: So do the parties have a new
- 6 line-up for Thursday that we can discuss at the end
- 7 of the day?
- 8 MR. STURTEVANT: I believe with Mr. Collins
- 9 gone and Mr. Smith -- I'm sorry, Mr. Collins has also
- 10 been waived. I am not sure that we have reported
- 11 that yet. With Mr. Collins, Mr. Fundich and
- 12 Mr. Smith gone, then we will be left with Staff
- 13 witnesses. And to the extent not addressed today, I
- 14 know there are a number of testimonies from all the
- 15 parties which were for witnesses for whom there was
- 16 no cross and can come in by affidavit. So we can
- 17 address those today or tomorrow.
- 18 JUDGE TAPIA: We can do that tomorrow. Well,
- 19 if we have time today. It's per the parties.
- 20 MR. STURTEVANT: Whatever everybody wants.
- 21 MS. SATTER: That sounds right. I think I left
- 22 something in the other room, if I can just have a

- 1 moment.
- JUDGE TAPIA: Sure. Okay. So I have the new
- 3 witness list.
- 4 MR. STURTEVANT: So the schedule I have right
- 5 now has Mr. Wilcox going first, Mr. Boggs, Mr. Kahle,
- 6 Mr. Lazare, Mr. Rukosuev and Mr. Hardas.
- 7 MS. BUELL: That is correct. That is unless
- 8 any parties decided to waive cross of a Staff
- 9 witness.
- 10 MR. STURTEVANT: We have already waived. We
- 11 don't have any cross of Staff witnesses. Don't look
- 12 at me.
- MS. SATTER: Don't look at me.
- MS. BUELL: Then, yes, that's the line-up for
- 15 tomorrow.
- 16 JUDGE TAPIA: Anything else we can discuss
- 17 before we proceed with Mr. Kerckhove's cross? Okay.
- 18 Ms. Satter?
- 19 CROSS EXAMINATION
- 20 BY MS. SATTER:
- 21 Q. Okay. Thank you for staying,
- 22 Mr. Kerckhove. I just have a few questions.

- 1 First, starting with your supplemental
- 2 testimony, page 9, I wanted to clarify, you say
- 3 starting at line 216 the test year projection of
- 4 service company fees is increasing by a net amount of
- 5 \$544,000?
- 6 A. Yes.
- 7 Q. And in that same paragraph you say that
- 8 certain account collection miscellaneous costs
- 9 previously forecasted as part of the level of service
- 10 company fees are now accounted for in customer
- 11 account and miscellaneous. So my question is, did
- 12 you remove the customer accounting and miscellaneous
- expenses from the service company fees?
- 14 A. Yes. This net, the \$544,823, is a net
- increase to service company fees. In other words,
- 16 the amount would have been higher except that these
- 17 amounts for customer accounting miscellaneous
- 18 expenses are now accounted for under those expenses
- 19 that were previously budgeted as service company
- 20 fees.
- 21 Q. So the increase to the service company fee
- 22 is actually 544,823 plus the amounts that were

- 1 transferred out, just in terms of a numerical number.
- 2 I am not saying it is the same function. But you
- 3 have to -- once you remove the -- I have \$821,962 for
- 4 customer accounting and 22,717 for miscellaneous. If
- 5 you remove those, then you add that same amount back
- 6 in and another 544 to get to that net amount?
- 7 A. That's not what my testimony says.
- Q. Okay. Well, that's what I am asking.
- 9 A. Because if you look at the next page, on
- 10 page 10, that it is also due to increase in
- 11 uncollectible expense, bank service charges and
- 12 postage as well.
- Q. Customer accounting?
- 14 A. Yes.
- Q. So the entire \$921 -- well, let's go back.
- 16 Line 219 you say certain account
- 17 collection and miscellaneous costs previously
- 18 forecasted as part of the level of service company
- 19 fees are now accounted for in customer accounting.
- 20 If it is not the full 821, do you know what it is?
- 21 A. I don't have a detail of how much the
- 22 customer accounting expense, that increase of

- 1 821,952, how much of it is due to these various
- 2 components, no.
- Q. Do you know what the gross income in the --
- 4 the gross increase in the service company fee was?
- 5 A. No, I don't.
- 6 Q. Is that anywhere in your testimony?
- 7 A. I don't believe so.
- 8 O. So at most it would be the addition of
- 9 these two items. At most it would be the addition of
- these two items plus the 544,000?
- 11 A. Again, in my responses to Mr. Balough
- 12 earlier, I indicated there may be some, some, not
- 13 dollar per dollar, but some movement of service
- 14 company costs to Illinois, that service company costs
- 15 may have been reduced for that one employee who is
- 16 not going to be doing work for Illinois. It may. I
- 17 don't know.
- 18 Q. So we don't really know what the net
- increase to the service company is?
- 20 A. Well, we do know what the net increase is.
- Q. I am sorry, we do know what the net
- increase is. Thank you. We don't know what the

- 1 gross increase is?
- 2 A. That's correct.
- Q. Okay. Now let's go to your surrebuttal. I
- 4 think we will be page 26. At page 26 you talk about
- 5 the PPI and the CPI, is that right, consumer price
- 6 index and the producer price index?
- 7 A. That is correct.
- Q. And you say that it is inappropriate to
- 9 apply the PPI to Illinois American's costs, is that
- 10 right? That's at the top of the page. Now --
- 11 A. The type of expenses that are being
- 12 inflated using an inflation factor are items that I
- included on --
- 14 O. You know, I am sorry, but there wasn't a
- 15 question pending, so. What I wanted to ask you was,
- 16 you say that the PPI does not apply to
- 17 Illinois-American Water Company's expenses. Is that
- 18 your position?
- 19 A. That was the same question you had just
- 20 actually posed to me earlier. So I believe that
- 21 there was a question pending. What I was saying was
- that that the PPI should not be applied to these

- 1 expenses that we are using an inflator for, such as
- 2 heating expense, telephone expense. I had a listing
- 3 of those and it was provided, I think, in my rebuttal
- 4 testimony as IAWC Exhibit Number 6.01R2, ground
- 5 keeping and janitorial, office and administrative
- 6 supplies, electricity, charitable contributions,
- 7 advertising, bill inserts, dues.
- 8 Q. So you are saying the PPI should not be
- 9 applied to those categories of expense?
- 10 A. Right.
- 11 Q. Okay. But it could be applied to
- 12 categories of expense such as chemicals, materials,
- 13 supplies and equipment?
- 14 A. I don't know if I would necessarily agree
- 15 with that. As I indicated, it's a producer index,
- 16 input index. And, you know, according to the U.S.
- 17 Bureau of Labor Statistics, there is even language on
- 18 the U.S. Bureau's website that it is an alpha pricing
- 19 index. It measures price changes received by
- 20 manufacturers of a product; it is neither a buyer's
- 21 index nor a price index.
- 22 Q. So you are saying that the PPI doesn't

- 1 apply at all to Illinois-American Water Company?
- 2 A. I would not use it myself, no.
- 3 Q. You think the CPI, consumer price index, is
- 4 an applicable inflation measure?
- 5 A. It is more of a consumer price, something
- 6 for consumption. I would note that the CPI
- 7 year-to-date is actually less than the PPI
- 8 year-to-date.
- 9 Q. And you say in your testimony that the CPI
- 10 is 2.3 percent inflation?
- 11 A. Through October, yes.
- 12 Q. And what is your source for that?
- 13 A. That would be the U.S. Bureau of Labor
- 14 Statistics.
- Q. Let me show you what's been marked as an AG
- 16 cross exhibit. I believe we are on 15. Yes, 15.
- 17 (Whereupon AG Cross Exhibit 15
- 18 was presented for purposes of
- identification as of this date.)
- 20 And can you take a look at this? This
- 21 is a U.S. Inflation Indicator?
- 22 A. That's what it says.

- Q. And are you familiar with the U.S.
- 2 Inflation Calculator?
- A. No, I am not.
- 4 Q. Are you familiar with Bureau of Labor
- 5 Statistics announcements on CPI?
- 6 A. Yes.
- 7 Q. Are you familiar with their press releases
- 8 announcing CPI changes?
- 9 A. Yes.
- 10 Q. Let me show you what I have marked as AG
- 11 Cross Exhibit 16.
- 12 (Whereupon AG Cross Exhibit 16
- was presented for purposes of
- 14 identification as of this date.)
- Now, would you agree with me that at
- 16 the top this indicates that it is technical
- information, phone number 202 area code, with a BLS
- 18 e-mail address?
- 19 A. Yes.
- 20 O. And this is the Consumer Price Index
- 21 October 2009?
- 22 A. It says on it Consumer Price Index October

- 1 2009, yes.
- Q. And do you recognize this as a press
- 3 release from the Bureau of Labor Statistics
- 4 announcing the October 2009 Consumer Price Index for
- 5 October, that period?
- 6 A. I have a different version of it myself in
- 7 my hand.
- 8 Q. And that different version has really small
- 9 writing, doesn't it?
- 10 A. Yeah.
- 11 Q. And this version has larger writing?
- 12 A. I can see both fine.
- Q. That's shows your age.
- 14 Okay. What I would like to ask you to
- do is to look at the first paragraph and if you can
- 16 read that paragraph?
- 17 A. "On a seasonally adjusted basis, the
- 18 consumer price index for all urban consumers (CPI-U)
- 19 rose 0.3 percent in October, the U.S. Labor Bureau of
- 20 Statistics reported today. The index has decreased
- 21 0.2 percent over the last 12 months on a
- 22 not-seasonally adjusted basis."

- 1 Q. So that does not indicate a 2.3 percent
- 2 increase for the last 12 months, does it?
- A. That isn't what my testimony says. But,
- 4 yes, it does not indicate that it is a 2.3 percent
- 5 increase over the last 12 months.
- 6 Q. Okay. So for the last 12 months which
- 7 would be, what, October, November 1, 2008, to -- are
- 8 we going to the 1st or the 31st of the month? The
- 9 last 12 months there has been deflation rather than
- 10 inflation pursuant to the consumer price index, isn't
- 11 that correct?
- 12 A. For the last 12 months through October of
- 13 2009.
- 14 O. And you believe the consumer price index is
- 15 the appropriate measure for inflation?
- 16 A. There are many measures of inflation, so I
- don't know what your question is asking.
- 18 Q. Do you believe the consumer price index is
- 19 an appropriate measure for inflation for purposes of
- 20 applying an inflation escalator to
- 21 Illinois-American's expenses?
- 22 A. For those items that we use an inflation

- 1 factor for, yes.
- Q. And yet you used a positive 2.3 percent
- 3 rather than a deflationary figure?
- A. Because it is a positive 2.3 percent for
- 5 the nine months in our 10-months ended October 2009.
- 6 Q. Although for the 12-month period it's a
- 7 negative; that's correct, right, a negative .2
- 8 percent?
- 9 A. I believe I have already said that.
- 10 MS. SATTER: All right. I have no further
- 11 questions.
- 12 JUDGE TAPIA: Thank you, Ms. Satter.
- 13 Mr. Alperin?
- MR. ALPERIN: I will waive my cross.
- JUDGE TAPIA: Okay. Thank you, Mr. Kerckhove.
- 16 Actually, any redirect?
- 17 MR. STURTEVANT: If you just give me one
- 18 moment, Your Honor, I just want to check back
- 19 through.
- 20 REDIRECT EXAMINATION
- 21 BY MR. STURTEVANT:
- 22 Q. Mr. Kerckhove, just one or a couple of

- 1 questions on redirect.
- When you were being cross-examined by
- 3 Mr. Balough, you were discussing QIP projects in the
- 4 first four months of 2010. Do you recall that
- 5 testimony?
- A. Yes, I do.
- 7 Q. Can you explain whether or not there would
- 8 be any concern regarding double recovery of
- 9 OIP-related costs in 2010?
- 10 A. There would be no double recovery of costs
- 11 related to infrastructure put in service in 2010.
- 12 These rates won't take effect until approximately May
- 13 1 of next year. And so the QIP surcharge will either
- 14 reduce or eliminate the regulatory lag associated
- 15 with recovering a return on and return of the
- 16 depreciation on those investments. So the surcharge
- 17 would be in effect January through April, would be
- 18 reset to zero and then would be reflected in base
- 19 rates beginning May 1.
- 20 MR. STURTEVANT: Okay. Thank you. I have no
- 21 further questions.
- JUDGE TAPIA: Any recross?

- 1 MS. SATTER: Yes, I have one question on
- 2 recross, well, one question on the QIP.
- 3 RECROSS EXAMINATION
- 4 BY MS. SATTER:
- 5 Q. Does the Company agree that the QIP
- 6 surcharge would have to be removed when the rates in
- 7 this case take effect in order to avoid double
- 8 counting the 2010 plant investment?
- 9 A. I am not quite sure what you are asking,
- 10 Ms. Satter. Can you please restate the question
- 11 again?
- 12 Q. Do you agree that the QIP surcharge for
- 13 2010 would have to stop on the day that the rates in
- 14 this case take effect in order to avoid double
- 15 counting plant for 2010?
- 16 A. Yes.
- 17 Q. Is that the Company's intention?
- 18 A. Yes.
- 19 O. So what would happen would be consumers
- 20 would see a QIP surcharge on their bills for a number
- of months, maybe four or five, and then the QIP
- 22 surcharge would be removed or it would be reduced to

- 1 zero?
- 2 A. It would be reduced to zero. So it
- 3 actually would be removed from the bill. And then --
- 4 because we would be -- the Company would be filing an
- 5 information sheet with QIP resetting the rate to zero
- 6 when the new base rates go into effect from this
- 7 proceeding.
- 8 MS. SATTER: Thank you.
- 9 RECROSS EXAMINATION
- 10 BY MR. BALOUGH:
- 11 Q. Am I correct then come January 1 of 2011,
- 12 that QIP surcharge would reappear, at least as far as
- 13 the Chicago metro and Champaign districts are
- 14 concerned?
- 15 A. It could reappear beginning January 1,
- 16 2011, for any or all districts.
- 17 Q. And the revenues that you collect from the
- 18 QIP surcharge, the new QIP surcharge for Chicago
- 19 metro, Champaign and other areas, would you then be
- 20 recognizing that as revenues in reducing the revenue
- 21 deficiency in this case because you were collecting
- that in the first several months of 2010?

- 1 A. They were never put into the forecast in
- 2 2010. So there is no need to take them out of the
- 3 revenue requirement.
- Q. I understand they weren't in there, but you
- 5 are going to be having additional revenues in what in
- 6 essence is the test year that you will be collecting
- 7 from the OIP. Does that not then reduce your revenue
- 8 deficiency?
- 9 A. No.
- 10 MR. BALOUGH: That's all I have. Thank you.
- JUDGE TAPIA: Mr. Sturtevant, any re-redirect?
- 12 MR. STURTEVANT: I quess I do have one
- 13 additional question.
- 14 REDIRECT EXAMINATION
- 15 BY MR. STURTEVANT:
- Q. And that would be, with respect to customer
- 17 bills after the QIP surcharge is reset to zero, can
- 18 you explain why under the QIP process it is possible
- 19 that there might be surcharge related charges on a
- 20 customer's bill?
- 21 A. It would result from proration. So if a
- 22 customer got a new bill the very day the new rates go

- 1 into effect or the day before new rates went into
- 2 effect, they would see the full QIP and on the next
- 3 bill would see none. But somebody receiving a bill
- 4 after the rates go into effect may see a little bit
- 5 just due to proration.
- 6 Q. Would there be any other QIP-related
- 7 charges that might be on a customer bill even after
- 8 the surcharge is reset to zero?
- 9 A. Just R components are old components
- 10 resulting from -- or, I am sorry, the C component,
- 11 the Commission ordered reconciliation component,
- those two items might end up on a customer's bill.
- 13 MR. STURTEVANT: Thank you. I have no further
- 14 questions.
- 15 JUDGE TAPIA: Thank you. One last opportunity,
- 16 anybody have cross?
- 17 Thank you, Mr. Kerckhove.
- 18 (Witness excused.)
- JUDGE TAPIA: Does the Company want to call
- 20 their next witness?
- MR. STURTEVANT: Yes, we call Mr. Grubb.
- 22 (Whereupon the witness was duly

- sworn by Judge Tapia.)
- JUDGE TAPIA: Whenever you are ready,
- 3 Mr. Sturtevant.
- 4 EDWARD J. GRUBB
- 5 called as a witness on behalf of Illinois-American
- 6 Water Company, having been first duly sworn, was
- 7 examined and testified as follows:
- 8 DIRECT EXAMINATION
- 9 BY MR. STURTEVANT:
- 10 Q. Good afternoon, Mr. Grubb. Will you state
- 11 your name and business address, please.
- 12 A. Edward J. Grubb, last name is G-R-U-B-B.
- 13 Address is 100 North Water Works Drive, Belleville,
- 14 Illinois 62223.
- Q. And by whom are you employed?
- 16 A. American Water Works Service Company.
- 17 Q. And what is your position?
- 18 A. I am the Director of Finance for the
- 19 Company. I am also the Assistant Treasurer of
- 20 Illinois-American Water.
- Q. Mr. Grubb, I have what has been marked as
- 22 IAWC Exhibit 5.00 (Revised) which is entitled the

- 1 Direct Testimony of Edward J. Grubb and accompanying
- 2 exhibits IAWC Exhibit 5.01, 5.02, 5.03, 5.04, 5.05
- 3 and 5.06. Did you prepare or direct the preparation
- 4 of this testimony and exhibits?
- 5 A. I did.
- 6 Q. And if asked the questions contained in the
- 7 testimony today, would your answers be the same?
- 8 A. Yes, they would.
- 9 O. Is the information contained in this direct
- 10 testimony and exhibits true and correct to the best
- of your knowledge?
- 12 A. They are.
- 13 Q. I also have what has been marked as IAWC
- 14 Exhibit 5.00SUPP, the Supplemental Direct Testimony
- of Edward Grubb and accompanying exhibits IAWC
- 5.01SUPP and 5.02SUPP, 5.03SUPP. Did you prepare or
- direct the preparation of this supplemental
- 18 testimony?
- 19 A. Yes, I did.
- 20 Q. And if asked the questions in your
- 21 supplemental direct testimony today, would your
- 22 answers be the same?

- 1 A. Yes, they would.
- Q. Is the information contained in your
- 3 supplemental direct testimony and exhibits true and
- 4 correct to the best of your knowledge and belief?
- 5 A. Yes, it is.
- 6 Q. Continuing, I have what has been marked as
- 7 IAWC 5.00R1, entitled Rebuttal Testimony of Edward
- 8 Grubb, as well as IAWC 5.00R2 (Revised), the Second
- 9 Part of the Rebuttal Testimony of Edward Grubb, and
- 10 accompanying that second part IAWC Exhibits 5.01R2,
- 11 5.02R2. Did you prepare or direct the preparation of
- this rebuttal testimony and exhibits?
- 13 A. Yes, I did.
- 14 O. And if asked the questions contained in the
- 15 two parts of your rebuttal testimony today, would
- 16 your answers be the same?
- 17 A. Yes, they would.
- 18 Q. And is the information contained in your
- 19 rebuttal testimony and exhibits true and correct to
- the best of your knowledge?
- 21 A. It is.
- 22 Q. Finally, Mr. Grubb, I have what has been

- 1 marked as IAWC Exhibit 5.00SR, Surrebuttal Testimony
- of Edward J. Grubb and accompanying exhibits 5.01SR
- 3 and 5.02SR. Did you prepare or direct the
- 4 preparation of this testimony and exhibits?
- 5 A. Yes, I did.
- 6 Q. If I were to ask you the questions in your
- 7 surrebuttal testimony today, would your answers be
- 8 the same?
- 9 A. They would.
- 10 Q. And is the information contained in your
- 11 surrebuttal testimony and exhibits true and correct
- to the best of your knowledge?
- 13 A. It is.
- 14 MR. STURTEVANT: Your Honor, at this time we
- 15 would move the introduction of Mr. Grubb's direct,
- 16 supplemental direct, rebuttal and surrebuttal
- 17 testimony as directed above.
- 18 JUDGE TAPIA: Thank you, Mr. Sturtevant. Is
- 19 there any objection to the exhibits that
- 20 Mr. Sturtevant has just stated?
- 21 Hearing no objection, those exhibits
- 22 that Mr. Sturtevant has stated are entered into

- 1 evidence.
- 2 (Whereupon IAWC Exhibits 5.00
- 3 (Revised), 5.01 through 5.06,
- 5.00SUPP, 5.01SUPP, 5.02SUPP,
- 5.03SUPP, 5.00R1, 5.00R2
- 6 (Revised), 5.01R2, 5.02R2,
- 7 5.00SR, 5.01SR and 5.02SR were
- 8 admitted into evidence.)
- 9 Mr. Sturtevant, could you repeat the
- 10 attachments to 5.00R2 (Revised)?
- MR. STURTEVANT: Yes. 5.00R2 (Revised) had two
- 12 attachments, 5.01R2 and 5.02R2.
- JUDGE TAPIA: Thank you very much. You may
- 14 proceed.
- MR. STURTEVANT: Your Honor, the witness is
- 16 available for cross.
- JUDGE TAPIA: Okay. Mr. Balough, would you
- 18 like to go first?
- 19 MR. BALOUGH: Sure.
- 20 CROSS EXAMINATION
- 21 BY MR. BALOUGH:
- Q. Good afternoon, Mr. Grubb.

- 1 A. Good afternoon.
- Q. I want to talk a few minutes with you about
- 3 your testimony, your direct testimony, on pages 8 and
- 4 9 concerning the Belleville lab analysis?
- 5 A. I have that.
- 6 Q. As I understand this testimony, you asked
- 7 other vendors who could perform some, I believe it is
- 8 28, different types of tests to submit a price per
- 9 test, is that correct?
- 10 A. That is correct.
- 11 Q. And this would be for each vendor to
- 12 perform one test as a per test price, is that
- 13 correct?
- 14 A. Whether it was one test or more tests is up
- 15 to the needs of American Water.
- Q. Right. Well, maybe let's just use a simple
- 17 example so -- if one of the tests were -- I don't
- 18 know what the tests are -- but, okay, if one test is
- 19 to determine what the amount of radon is in water,
- 20 again hypothetically because I don't know what the
- 21 tests are, you would ask a vendor how much is it
- 22 going to cost to do that one time, is that what you

- 1 asked them for?
- 2 A. I think what we had asked them for was what
- 3 would be the cost of doing tests using American
- 4 Water's needs for a year. So American Water has
- 5 about 55,000 tests and they were asked to give a bid
- 6 on what it would cost on a per test basis to perform
- 7 that, those testing.
- Q. That's where I am getting confused. So
- 9 let's -- okay, you perform 55,000 tests in a year and
- 10 there are 28 different types of tests by your
- 11 testimony, is that correct?
- 12 A. That's about correct, yes.
- 13 O. Let's assume that one of these tests
- 14 requires over a year period that they would have to
- 15 perform it 500 times, fair?
- 16 A. Yes.
- 17 Q. When you sent out the bid, did you say what
- is it going to cost to do that test 500 times for the
- 19 year?
- 20 A. Exactly that, Mr. Balough, I don't know. I
- 21 do know that the bid was sent out saying we have a
- 22 basket of tests over a year, here is our needs.

- 1 Whether it was exactly 500 or 200 or a thousand, I
- 2 don't know that for sure.
- 3 Q. So but -- all right. So it wasn't -- and I
- 4 don't mean to belabor this but I will. It wasn't
- 5 what does it cost to do it one time and then there is
- 6 no volume discount, for example?
- 7 A. That I don't know, no.
- 8 Q. Am I correct that on page 11 of your direct
- 9 testimony, that not only did you look at the results
- 10 of the test and include the price that the vendors
- 11 were going to charge, but you also added in the
- 12 overhead for the facility at Belleville, even if it
- wasn't going to be used?
- 14 A. We allocated on a total basis for each of
- 15 the vendors in determining the Belleville cost test
- 16 certain overheads based upon the amount of the
- 17 facilities dedicated to doing the testing. So, for
- 18 example, depreciation for the Belleville lab, we only
- 19 allocated so much depreciation expense that was
- 20 associated with doing the actual tests. We didn't
- 21 say all depreciation expense for that whole building
- 22 because the whole building is not dedicated to doing

- 1 tests.
- Q. And how did you determine what the
- 3 depreciation would be for a particular one of these
- 4 28 different types of tests?
- 5 A. Well, we know what assets we have there at
- 6 the Belleville lab. We have a depreciation rate, and
- 7 that gives us the total depreciation expense. And
- 8 then we base that allocation for the test based upon
- 9 the, I believe, the square footage in the building
- 10 dedicated to doing lab testing.
- 11 Q. And when you are trying to determine what
- 12 it would cost for a non-affiliate to provide that
- 13 service, am I correct that your testimony is that you
- 14 looked at the price that the non-affiliate vendor was
- 15 going to provide the test for and then you added this
- 16 depreciation cost?
- 17 A. No, no, we just took their cost to do the
- 18 test and then built our cost on a per test basis and
- 19 compared it to and came up with the difference which
- 20 we had identified as a savings.
- 21 Q. And I just want to clarify for a moment, in
- 22 this case the Company is proposing to move the

- 1 Champaign district into what will be now designated
- 2 as Zone 1, is that correct?
- A. That is correct.
- 4 Q. And that is based upon what the Company
- 5 believes is the direction by the Commission to
- 6 eventually move the entire Illinois-American system
- 7 to one price throughout the state?
- 8 A. That is the indication from the prior order
- 9 of the Commission, and I believe it is the Company's
- 10 wishes also to go to hopefully at some point same
- 11 tariff pricing for the state.
- 12 Q. And for purposes of at least this case, the
- 13 Company is proposing, as far as the customer charge
- 14 for the five-eighths inch meter, that the Champaign,
- 15 the old Champaign, district customers, their customer
- 16 charge would be \$2 less than what the other customers
- in the new Zone 1 would be paying, is that correct?
- 18 A. I believe that sounds about right, because
- 19 it was a little bit less than the Zone 1 proposal.
- 20 O. This price differential, would that
- 21 continue then into the next case or is it the
- 22 Company's intent then to have the Champaign district

- 1 pay the same as the other Zone 1 customers?
- 2 A. Well, in the next case we would certainly
- 3 evaluate and determine if we could move the Champaign
- 4 five-eighths inch meter charge to the Zone 1 rate or
- 5 maybe use another step to get there in maybe the
- 6 following case. It just depends on the magnitude of
- 7 the impact.
- Q. And the reason that you are requesting the
- 9 differential in this case is because of the Company's
- 10 concern of rate shock, especially for the low users
- in the Champaign district?
- 12 A. It is more rate mitigation just to ease the
- 13 amount of rate increase in for the small customers.
- Q. Is the Company proposing to make any
- changes in the, what I will call, the fire sprinkler
- 16 charge, the stand-by charge?
- 17 A. I am not sure what you mean by a stand-by
- 18 charge. Is that just a monthly --
- 19 O. The monthly fee.
- 20 A. Is that private fire?
- 21 Q. The private fire where -- let me back up.
- 22 You read the testimony, I assume, of

- 1 Chief Schofield in this case?
- 2 A. Yes, I did.
- Q. One of his concerns is the fact that there
- 4 is a rate that a customer must pay per month if there
- 5 is a fire sprinkler in either the building -- in a
- 6 building, is that correct?
- 7 A. That is correct.
- Q. Is the Company proposing to make any
- 9 changes in that tariff?
- 10 A. I believe, if my memory serves me right, we
- 11 are proposing to increase that private fire charge.
- 12 And I do have some, I believe, rebuttal to address
- 13 that, and I think maybe the Homer Glen witness maybe
- just didn't understand why the charge is there, why
- it is increasing. We do have, you know, facilities,
- 16 we do have mains, the plant to produce the water,
- 17 stand pipes and tanks that are there to provide the
- 18 fire service basically for the customer if the
- 19 customers need to use that fire service.
- 20 So there is more than just you have
- 21 the facilities there. You have to pay for the
- 22 facilities that support that service.

- 1 Q. And you understand that the fire chief's
- 2 concern is that, the fact that that rate is there may
- 3 be a disincentive for someone to install a fire
- 4 sprinkler system, for example, in their home?
- 5 A. Well, there is a trade-off to having that
- 6 fire service there and to lower your insurance
- 7 premiums versus not having it there and paying higher
- 8 insurance premiums. I don't know what that cost
- 9 benefit is. That would be up to the individual
- 10 customer to determine that.
- 11 Q. But you would agree that that is a cost
- 12 benefit analysis that someone would have to look at
- 13 to see whether the cost of this fee exceeds any
- 14 savings they may have on insurance?
- 15 A. There is a cost to having the fire
- 16 protection in the person's home or the business, yes.
- 17 MR. BALOUGH: I have no other questions. Thank
- 18 you.
- 19 JUDGE TAPIA: Thank you, Mr. Balough.
- 20 Mr. Robertson?
- MR. R. ROBERTSON: Yes, Your Honor, actually in
- 22 lieu of cross examination of Mr. Grubb, the Company

- 1 has agreed to admit three IIWC cross exhibits, what
- 2 have been marked as IIWC Cross Exhibit Number 4,
- 3 which is an Illinois-American Water Company response
- 4 to an IIWC Data Request 3-5. It is a response
- 5 prepared by Mr. Grubb; what has been marked as IIWC
- 6 Cross Exhibit 5, which is entitled AG 4.13R1 which is
- 7 an attachment to the Attorney General Data Request
- 8 4.13a; and what's been marked as IIWC Cross Exhibit
- 9 6, which was the second supplemental response to IIWC
- 10 1.1 which is a rebuttal work paper number 2 of Grubb,
- 11 which is a press release from the St. Louis Business
- 12 Journal. I move that those be entered.
- 13 JUDGE TAPIA: Thank you. And, Mr. Sturtevant,
- is there agreement?
- MR. STURTEVANT: Yes, there is no objection
- 16 from the Company. That's fine.
- 17 JUDGE TAPIA: IIWC Cross Exhibits 4, 5 and 6,
- 18 as stated by Mr. Robertson are entered into evidence.
- 19 (Whereupon IIWC Cross Exhibits
- 4, 5 and 6 were marked for
- 21 purposes of identification and
- 22 admitted into evidence.)

- 1 MR. STURTEVANT: And I would just for
- 2 clarification, should we file these on e-Docket or do
- 3 you want me to hand a hard copy to the clerk, court
- 4 reporter?
- 5 MR. R. ROBERTSON: I handed them.
- 6 JUDGE TAPIA: Thank you, Mr. Sturtevant.
- 7 Actually, Ms. Satter?
- 8 CROSS EXAMINATION
- 9 BY MS. SATTER:
- 10 Q. Good afternoon, Mr. Grubb.
- 11 A. Hello.
- Q. As you know, I represent the People of the
- 13 State of Illinois, and I have just a couple of
- 14 questions for you.
- In your direct testimony you describe
- 16 how the service company allocations are done. And
- 17 you say when a cost can be directly assigned, then
- 18 there is no tier allocation, is that right?
- 19 A. That would be correct. The example would
- 20 be me today, I would be charging my direct time to
- 21 Illinois-American.
- Q. So then the number of hours for your

- 1 services are tallied and an hourly cost with overhead
- 2 is assigned?
- 3 A. Yes.
- 4 O. Is that how the direct allocation works?
- 5 A. Yeah. For example, I will just -- I would
- 6 charge eight hours today because it was a full eight
- 7 hours. And based upon the overhead pool, both
- 8 employee benefits pool and the building overhead I
- 9 described in the contract to the company, the service
- 10 company, there are dollars added to the payroll
- 11 dollars that are charged out both on a direct basis
- 12 and the allocated basis.
- 13 Q. So there is an amount charged that tracks
- 14 your salary level?
- 15 A. There are overheads that will be added to
- 16 employee dollars that are charged to the Company.
- 17 Q. So the overhead, that's the overhead
- 18 portion?
- 19 A. Yeah.
- 20 Q. But then there is the salary portion?
- 21 A. That's the initial piece that would be
- 22 identified in the billing system.

- 1 Q. And it is an increment of your payroll?
- 2 A. That's my hours times an hourly wage rate.
- 3 Q. By your hourly rate?
- 4 A. By the actual hourly wage rate.
- 5 Q. Do you know what the charge is that
- 6 Illinois-American sees for your hours sitting here
- 7 today, including your payroll and your overhead?
- 8 A. They can see that. There are reports, I
- 9 think.
- 10 O. Do you know what it is?
- 11 A. Do I know what --
- Q. Do you know what you charge your company
- 13 for your presence here?
- 14 A. I know what my hourly rate is. If I
- 15 divided it out by total hours of the year, I can
- 16 multiply that out. The overhead amount that follows
- 17 the payroll dollars may change from month to month,
- 18 depending on the actual overhead dollars charged.
- 19 You know, depreciation expense can be a little
- 20 different in a month. The amount of group insurance
- 21 and pension costs may be a little bit different. It
- 22 will just depend on the actual overhead dollars

- 1 accumulated in that month. But I couldn't say here
- 2 as a result today that Illinois-American is going to
- 3 receive X number of dollars because I don't know what
- 4 the overhead dollars are until the end of the month.
- 5 Q. And then if you get a raise, then the
- 6 payroll element of that charge is raised?
- 7 A. The hourly wage rate would go up.
- Q. Would go up?
- 9 A. Yes.
- 10 Q. And Illinois-American would be responsible
- 11 for that higher rate?
- 12 A. To the extent that I charge
- 13 Illinois-American for my time, yes.
- 14 O. But the service company decides whether you
- 15 get that raise?
- 16 A. We have a process that identifies hourly
- increases on an annual basis.
- 18 Q. But it's the service company that makes
- 19 that determination, not the operating company?
- 20 A. Well, the operating companies are kept
- 21 apprised, and some of the operating company
- 22 presidents are on the board of directors of the

- 1 service company. So to the extent that there is a
- 2 budget out there for the service company, that budget
- 3 has been fully bedded out by the various presidents
- 4 throughout the Company who are on the board in that
- 5 year. So they know the amount of costs that are out
- 6 there for the service company and what's coming to
- 7 them. And within that budget are supposedly raises,
- 8 you know, merit increases on an annual basis. So
- 9 they would be fully aware of what those costs are.
- 10 O. But it is a service company decision?
- 11 A. Ultimately, yes, the board of directors of
- 12 the service company.
- 13 Q. Now, when a service company employee does
- 14 something that benefits more than one entity, then
- 15 you use the tier allocations, right?
- 16 A. That is correct.
- 17 Q. And it sounds like there are many factors
- 18 that go into the Tier 1 allocation in particular,
- 19 would you agree with that?
- 20 A. I am not sure I would characterize it --
- 21 define many for me.
- 22 Q. Well, at page 6 you say there are nine

- 1 different formulas plus various metrics included in
- these formulas. And so my question is, when an
- 3 employee fills out a time sheet that shows a service
- 4 that's not directly allocated, how is the Tier 1 or
- 5 even the Tier 2 analysis applied? Who does that?
- 6 How is that handled?
- 7 A. That's determined by the employee.
- 8 Q. The allocation is determined by the
- 9 employee?
- 10 A. Well, no.
- 11 Q. I mean the assignment?
- 12 A. The assignment. Picking and choosing of
- 13 the proper allocation, you know, I don't want to use
- 14 the word "formula" because it is an allocation, okay.
- 15 For example, myself, if I do work for a group of
- 16 companies -- and earlier in this year before my
- 17 present position I was the director of rates for the
- 18 central region, I had six or seven companies in that
- 19 region. And when I would do financial reviews or go
- 20 to training sessions, things that where I don't do
- 21 work for a specific company, I would allocate or
- 22 charge my time to a formula that is a Tier 2 formula,

- which means those dollars in my payroll would go all
- 2 to the regulated companies since I provide no service
- 3 to the non-regulated companies in American Water.
- 4 Now there may be a few employees in
- 5 American Water who do provide services to the
- 6 non-regs and the regs. They would use the Tier 1
- 7 formulas which is shown on Exhibit 5.03. They would
- 8 use a formula, and then based on these formulas a
- 9 piece of their payroll dollars and all the associated
- 10 overheads would go with those dollars to the non-regs
- 11 first, and then the remaining dollars that go into
- 12 the reg would be allocated upon the Tier 2 formula
- 13 which would be based upon a customer allocation.
- 14 O. So you as the employee, let's use your
- 15 Exhibit 5.03 with the Tier 1 allocation just for
- 16 purposes of discussion, you as the employee would
- 17 assign your service to, say, regulated and
- 18 non-regulated because then you would be in Tier 1,
- 19 and then you pick -- it says three-factor formula,
- 20 two-factor formula, then there is revenue factor,
- 21 total premises factor, employee factor, budgeted
- 22 capital projects and engineering project management

- 1 factor, accounts payable factor, employee and retiree
- 2 factor and purchasing factor. You would select which
- 3 of these formulas and factors are appropriate for
- 4 that particular service?
- 5 A. Well, the employees who normally work for
- 6 non-reg and reg, we know all these things. They have
- 7 been trained on them; they have been shown how to use
- 8 them, why to use them. For example, the purchasing
- 9 factor, somebody employed in the supply chain
- 10 function would do supply chain functions for both req
- 11 and non-reg and, therefore, they would use this
- 12 purchasing factor which is at the bottom of this
- 13 exhibit and then that takes their labor dollars and
- 14 the overheads, sends a portion of it to the
- 15 non-regulated companies, and the remaining piece that
- is not non-reg goes to the regulated companies based
- on the customer count allocation.
- 18 Q. So is there like a form and you check which
- 19 of these factors applies to that particular service?
- 20 A. There is an electronic input sheet that we
- 21 have, that all service company employees have. What
- 22 you see there is you will see a payroll code, you

- 1 will see an allocation code or a form number to use.
- One of those numbers for like Illinois-American is
- 3 like 10040. That dollar, when I put eight hours of
- 4 that or two hours of that formula, it goes straight
- off to Illinois-American with my overheads.
- There is a similar type number for the
- 7 three factor formula, one for the participating
- 8 factor formula.
- 9 Q. So the employee does this on a daily basis,
- 10 a weekly basis, a monthly basis? How is it done?
- 11 A. I usually do it at the end of the week.
- 12 Q. At the end of the week?
- 13 A. Yeah, I look on my calendar, mark on my --
- 14 for me, anyway, I mark on my calendar what I do and
- 15 at the end of the week I fill it out and then I
- 16 submit it for approval to my supervisor who has to
- 17 review it and approve it.
- Q. Now let's go to Exhibit 5.02, to your
- 19 direct, and page 1 of 2. Now, under IAWC Cost
- 20 Assignments, these are the amounts for the test year
- 21 that the service company has assigned to
- 22 Illinois-American for these various categories of

- 1 services, is that right?
- 2 A. That is correct.
- 3 Q. And would you agree with me that the
- 4 percentages of Illinois-American -- well, strike
- 5 that. Let me ask you this first.
- 6 Do you know what percentage of total
- 7 customers are represented in Illinois? Is it about
- 8 nine percent?
- 9 A. About nine percent, yes.
- 10 Q. So, okay, so about nine percent.
- 11 And would you agree with me that for
- 12 most of the costs, most of the services on this
- 13 exhibit, the assignment to Illinois-American is
- 14 between 7.7 percent and 10 percent?
- 15 A. That sounds about reasonable.
- 16 Q. Okay. But division operation support and
- 17 regulated operations is higher, isn't it?
- 18 A. That's correct. This is a part of the
- 19 division which has only ten companies, I believe it
- 20 is about ten companies, in it that have received
- 21 charges from employees of the service company that
- 22 only do work for, I believe, a ten company division.

- 1 And so the allocation of the Illinois-American might
- 2 be a little bit higher than the nine percent. It
- 3 could be 15, 16 percent.
- 4 Q. I was going to ask you if you know what
- 5 percentage of that group's customers are Illinois
- 6 customers. Did you say 15 percent?
- 7 A. I was just looking at the million six to
- 8 seven million dollars there for the division op
- 9 support or regulated op support. That would be for
- 10 the western division.
- 11 Q. But do you know what percentage of
- 12 customers?
- 13 A. I don't know. They just formed the
- 14 divisions and so I don't know. Customers are part
- 15 California or Iowa or Arizona. I have an idea, but I
- 16 don't have an exact number.
- Q. So you are saying division ops support and
- 18 reg ops?
- 19 A. Regulated ops.
- 20 Q. It sounds very military. Those are only
- 21 the western district?
- 22 A. There may be somebody there in that group

- 1 that serves the whole American Water. I think the
- 2 president of the regulated operations at American
- 3 Water Works Service Company for American Water is in
- 4 that group also. On our response to AG 3.7 there is
- 5 a discussion of the services there.
- 6 Q. There you say that the larger allocation is
- 7 the result of blending the direct and allocated
- 8 charges to customer relations and engineering
- 9 services?
- 10 A. Correct.
- 11 Q. So it sounds to me like you are saying that
- 12 customer relations and engineering services in
- 13 Illinois are taking a larger portion of these
- 14 services than they are taking other -- than Illinois
- is taking of other services?
- 16 A. It's larger because it's a smaller group of
- 17 companies in that group.
- 18 O. But it sounds like customer relations and
- 19 engineering services you specified?
- 20 A. For example, we have a group in Belleville
- 21 that does the customer relations. And there is a
- 22 group there and there is another group in Lexington,

- 1 Kentucky. That Lexington, Kentucky, group only
- 2 provides that same support to the eastern division
- 3 companies, whereas the group in Belleville provided
- 4 it for the western division companies only.
- 5 Q. So would you expect the allocation to be --
- 6 the Illinois allocation to be equivalent to the
- 7 number of customers representative of the group in
- 8 Illinois?
- 9 A. That is correct, yes.
- 10 Q. But you don't know what that percentage of
- 11 customers is?
- 12 A. I don't know. I know for whole American
- 13 Water it was nine percent. It was 25 percent when
- 14 Illinois was part of a smaller region. It is now
- part of a bigger division, so that percent went from
- 16 25 down to 16, 17 percent. I am not sure what that
- 17 is.
- 18 Q. Okay. In your testimony you talk about the
- 19 hourly cost of the service company fee increasing by
- 20 2.81 percent?
- 21 A. Correct.
- 22 Q. Is it your belief that the increase in this

- 1 service company fee is driven by an increase in the
- 2 payroll to service company employees?
- 3 A. A 2.81 percent is the increase items that
- 4 we outline in the update which would be an increase
- 5 for depreciation from the original filing, a
- 6 depreciation in maintenance. It represents a decline
- 7 or a reduction for lowered payroll taxes because of
- 8 on the incentive plan. We took the incentive plan
- 9 cost out, but inadvertently left the payroll tax in.
- 10 We took that out. And we also -- I believe we
- 11 lowered management fees for two items that we put
- 12 into the customer account and miscellaneous expense
- 13 line and that is 540 some thousand dollars.
- Q. But in your testimony you said the hourly
- 15 cost of service company fees increased?
- 16 A. The hourly cost --
- 17 Q. By 2.81 percent?
- 18 A. But when you ask --
- 19 Q. I am just asking about the 2.81 percent.
- 20 You know, the other stuff was really extraneous, as
- 21 far as I am concerned.
- 22 A. Okay.

- 1 Q. I only want to know about the 2.81 percent?
- 2 A. The 2.81 percent represents the increase in
- 3 the management fee cost we have in our update.
- 4 O. Period?
- 5 A. Period.
- 6 Q. It does not translate into increase in
- 7 payroll to the employee?
- 8 A. Correct.
- 9 Q. Your Exhibit 5.01R2, that shows the
- 10 allocations for the various categories for the test
- 11 year, is that right? Actually, it looks like a
- 12 five-year plan. But my question is, does this
- 13 exhibit show the number of hours that are spent for
- 14 any of these categories or does this show the total
- 15 charges?
- 16 A. These are the total dollars.
- 17 Q. So it doesn't show the hours?
- 18 A. This schedule does not show the hours, no.
- 19 Q. Now, the other thing that you talk about in
- 20 your testimony is this comprehensive planning study
- 21 that the Company wants Illinois-American to pay
- 22 \$625,240 for, put that amount in rate base.

- 1 A. That is correct.
- Q. Do you know what the -- now, this study is
- 3 a study that was requested by American Water, isn't
- 4 that correct, by the parent?
- 5 A. It was a study that was determined to be
- 6 needed to determine the future direction of American
- 7 Water in terms of replacing its business systems and
- 8 business processes.
- 9 Q. So it's for the entire American Water
- 10 Company system, isn't it?
- 11 A. It's for the Company, the regulated
- 12 companies right now. Those business systems being
- used by the regulated companies, our JDE system is
- 14 being looked at very seriously. It is 12 years old
- 15 now. The Orcom ECIS system that the regulated
- 16 companies use is being looked at also and looking to
- 17 be replaced.
- 18 Q. And are there -- I understand there are 32
- 19 states in which American Water has operations, is
- 20 that right?
- 21 A. I usually only deal with the regulated and
- 22 that's about 20 regulated.

- 1 Q. About 20 regulated, and then a group of
- 2 unregulated?
- 3 A. There is a group that is unregulated.
- 4 Q. And the unregulated includes American Water
- 5 as a contractor, as an operator of other systems, is
- 6 that right?
- 7 A. That's my understanding, yes.
- 8 Q. So that would be an unregulated or
- 9 non-regulated function?
- 10 A. Contract operations, I believe is the name
- 11 that's in use.
- 12 Q. And did contract operations use the same
- 13 processes and programs and systems that the regulated
- 14 systems use, the regulated companies use?
- 15 A. I am not sure what systems they use. All I
- 16 know is from my experience that the regulated -- all
- 17 the regulated companies use JDE or ECIS.
- 18 Q. Now, do you know what the total cost of
- 19 this comprehensive planning study is, not just for
- 20 Illinois but the total cost to American Water?
- 21 A. About \$6.7 million.
- 22 Q. Now, in response to AG Data Request 9.16

- 1 you were asked for the cost and you referred to the
- 2 response to AG Data Request 6.2. And I am going to
- 3 just ask you to look through this response with me,
- 4 if you will.
- 5 MR. STURTEVANT: Sorry to interrupt, but I
- 6 believe that some of this has been labeled
- 7 confidential.
- 8 MS. SATTER: Is it labeled confidential?
- 9 MR. STURTEVANT: The entire interior appears to
- 10 be labeled confidential.
- 11 MS. SATTER: Can we go off the record for just
- 12 a minute?
- JUDGE TAPIA: Yes, go off the record.
- 14 (Whereupon there was then had an
- off-the-record discussion.)
- JUDGE TAPIA: Why don't we go ahead and take a
- 17 five-minute break?
- 18 (Whereupon the hearing was in a
- short recess.)
- 20 JUDGE TAPIA: Back on the record.
- 21 Ms. Satter?
- MS. SATTER: Yes. We have had an

- 1 off-the-record discussion in light of the
- 2 confidential marking on the exhibit, and we have
- 3 agreed, the Company and the Office of the Attorney
- 4 General, that I will put together a listing of the
- 5 information that I wanted to elicit from these
- 6 exhibits, and the Company will then go back and see
- 7 whether those could be filed publicly.
- JUDGE TAPIA: Okay.
- 9 MS. SATTER: And then file them as a late-filed
- 10 exhibit, either publicly or confidentially, depending
- 11 on what the review concludes.
- 12 JUDGE TAPIA: And then there will be no need to
- 13 continue cross examination in regards to this
- 14 exhibit?
- MS. SATTER: Right. So we are prepared to do
- 16 that. That's number one.
- 17 Then, number two, is Mr. Grubb
- 18 testified on an issue related to an issue in this
- 19 case in Docket 09-0400 and on Monday there was cross
- 20 examination in that case. That case has been
- 21 assigned to Judge Jones, as is this case. And Judge
- Jones wasn't there on Monday either, so.

- 1 What we want, what I am asking is for
- 2 the Commission to take administrative notice of the
- 3 -0400 testimony and cross examination, so that we
- 4 don't redo the cross examination on the same issue in
- 5 this case.
- 6 JUDGE TAPIA: Okay.
- 7 MS. SATTER: So I would move for the Commission
- 8 to take administrative notice of the testimony and
- 9 cross examination in Docket 09-0400. And the cross
- 10 examination took place on Monday, I believe it's
- 11 December 7.
- 12 JUDGE TAPIA: Cross examination of --
- MS. SATTER: Mr. Grubb.
- 14 JUDGE TAPIA: Of Mr. Grubb.
- MS. SATTER: And he was the only witness that
- 16 was subject to cross examination in that case.
- 17 JUDGE TAPIA: I am sorry, and the docket number
- 18 is 09-0400?
- 19 MS. SATTER: Yes.
- 20 JUDGE TAPIA: And is there any objection to
- 21 that?
- 22 MR. STURTEVANT: No, Your Honor. I would just

- 1 note that the Company has no objection in light of
- 2 the fact that Mr. Grubb is the same witness in both
- 3 proceedings. There is some overlap of the
- 4 information and the administrative law judge is also
- 5 Judge Jones in that proceeding.
- 6 So in light of those circumstances, we
- 7 have no objection.
- 8 MS. SATTER: And just to clarify, I would ask
- 9 that all the testimony be subject to administrative
- 10 notice, not just Mr. Grubb's.
- JUDGE TAPIA: All the testimony in that case?
- MS. SATTER: Yes.
- 13 MR. STURTEVANT: Which is mostly Mr. Grubb's.
- 14 MS. BUELL: Does that include Staff testimony
- 15 as well?
- 16 MS. SATTER: Maybe we can take a break while
- 17 Staff discusses.
- 18 JUDGE TAPIA: Okay.
- 19 (Whereupon the hearing was in a
- 20 short recess.)
- JUDGE TAPIA: We are back on the record.
- MS. BUELL: After consideration of this issue,

- 1 Staff has determined that it would have no objection
- 2 to the Commission taking administrative notice of
- 3 Staff witness Kahle's testimony in Docket Number
- $4 \quad 09 0400$.
- JUDGE TAPIA: And he's the only witness that
- 6 testified for Staff?
- 7 MS. BUELL: The only Staff witness in that
- 8 proceeding, yes, Your Honor.
- 9 JUDGE TAPIA: Okay. Anything further?
- 10 BY MS. SATTER: Yes, just two more minor items.
- 11 Q. Mr. Grubb, let me hand this to you. This
- is the response to Staff Data Request -- excuse me,
- 13 AG Data Request 5.5 and AG Data Request 3.1. And can
- 14 you tell me, does this document show the number of
- 15 sewer treatment -- sewage treatment customers in the
- 16 Chicago metro area and their locations?
- 17 A. Okay.
- 18 Q. Yes?
- 19 A. Uh-huh.
- 20 MS. SATTER: I would like to move for the
- 21 admission of AG Cross Exhibit 17 with that
- 22 information.

- 1 JUDGE TAPIA: Any objection to AG Cross Exhibit
- 2 17?
- 3 MR. STURTEVANT: No, Your Honor.
- 4 MS. SATTER: And I have also marked AG Cross
- 5 Exhibit 18. Now, this is a response to Staff -- to
- 6 AG Data Request 9.11. It's a map of the Chicago
- 7 metro service area with the names of the service
- 8 areas and the number of customers served in each
- 9 service area. It was produced by Cheryl Norton. But
- 10 if there is no objection, I would move for its
- 11 admission just for informational purposes.
- 12 JUDGE TAPIA: Mr. Sturtevant, do you have any
- objection to AG Cross Exhibit 18?
- 14 MR. STURTEVANT: No, we don't, Your Honor.
- JUDGE TAPIA: Hearing no objection to AG Cross
- 16 Exhibit 17 and AG Cross Exhibit 18, these exhibits
- 17 are admitted into evidence.
- 18 (Whereupon AG Cross Exhibits 17
- 19 and 18 were presented for
- 20 identification and admitted into
- 21 evidence.)
- 22 MS. SATTER: And I have nothing further.

- 1 JUDGE TAPIA: Thank you, Ms. Satter.
- 2 Mr. Alperin?
- 3 MR. ALPERIN: I have no questions. Thank you.
- 4 JUDGE TAPIA: Okay. Any redirect?
- 5 MR. STURTEVANT: Just give me a minute, Your
- 6 Honor.
- 7 (Pause.)
- We have no redirect, Your Honor.
- 9 JUDGE TAPIA: Okay, thank you. I think that
- 10 concludes our list today, our witness list today.
- 11 Let's go ahead and enter any affidavits tomorrow
- 12 morning, first thing. And I am not sure what time
- Judge Jones scheduled the case tomorrow, but let's go
- 14 ahead and start at 9:00.
- 15 Anything else we need to do before we
- adjourn until tomorrow at 9:00 o'clock?
- 17 MR. STURTEVANT: I don't think so, Your Honor.
- MR. E. ROBERTSON: Oh, Your Honor, would you
- 19 want the parties to move, if their testimony is going
- 20 in by affidavit, did you want us to move the
- 21 admission of the individual exhibits of each of the
- 22 witnesses?

- 1 JUDGE TAPIA: Yes. We are going to do that
- 2 first thing tomorrow morning, unless, Mr. Robertson,
- 3 are you going to be here tomorrow?
- 4 MR. E. ROBERTSON: One of us, somebody named
- 5 Robertson will be here.
- 6 JUDGE TAPIA: Yeah, let's just do that first
- 7 thing tomorrow morning.
- 8 MS. SATTER: Judge, if we don't have the
- 9 affidavits back yet, if we don't have them signed, do
- 10 you want us to still identify the testimony?
- 11 JUDGE TAPIA: Yes. And if you can file it that
- 12 day or tomorrow?
- 13 MS. SATTER: I am trying to get the information
- 14 this afternoon and get it signed, but if not, you
- 15 still want us to run through it?
- 16 JUDGE TAPIA: Right, let's do that. And then
- if you don't have it signed that day but you are
- 18 going to file it that day because you are going to
- 19 get it, we will do that, if that makes sense. Let's
- 20 adjourn until tomorrow at 9:00 a.m.
- 21 (Whereupon the hearing in this matter was continued until
- December 10, 2009, at 9:00 a.m. in Springfield, Illinois.)